

PN ABP-486
83202

DRAFT FINAL REPORT

MONITORING PROGRAM PERFORMANCE:

USAID/EGYPT

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FEBRUARY 4, 1992

This report was prepared as a result of a Technical Assistance TDY from January 18 - February 4, 1992 under the PRISM Project for A.I.D.'s Center for Development Information and Evaluation (CDIE). [The PRISM Project is being conducted through a contract to Management Systems International (MSI), with support from Labatt-Anderson, Inc. and Research Triangle Institute (RTI).]

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I. INTRODUCTION

A. Purpose and Scope of Work

The primary purpose of this report is to help USAID/Egypt establish a Program Assessment Performance System (PPAS) for the key programmatic areas of its portfolio. The secondary purpose of this report is to provide preliminary feedback to the Mission on substantive issues that emerged during our review. A brief summary of these issues can be found in Section 2.A.3.

When the (PPAS) is installed, the USAID should be able to identify the information that will be needed on a regular basis to judge the impact of its portfolio in various program areas and in the achievement of higher-level USAID goals. This information can be used for the USAID's own management purposes and for reporting to AID/Washington and to Congress.

B. Methodology

The team visited Egypt from January 19 through February 5, 1992. Working through USAID's Program Office, the team enjoyed access to and support from mission management and the various offices. The team consisted of Karen Hilliard, Program Office USAID/Egypt; Larry Cooley, MSI; Robert Baker, AID/CDIE; Philip Boyle, MSI; Steven Gale, AID/CDIE; and Brad Schwartz, RTI. The team took as points of departure the USAID's Draft Plan, the two drafts of the Trade and Investment Report, the Quarterly Report, the Economic Agreement Plan, draft version of *Health Strategy: Decade of the 90's*, and draft Executive Summary, *Health Strategy for the Third Mubarak Quinquennium* (11/7/91).

Mission strategic objectives were arranged in a hierarchical fashion using a technique called "objective trees" to clarify the logic and substance of USAID strategies. For each identified strategy, initial analysis was carried out using the following framework (see CDIE's Performance Measurement Guidelines) of definitions:

- Program: The entire range of development activities--projects, non-project assistance, policy reform, and other activities--aimed at achieving a strategic objective.
- Strategic Objective: The highest level development result that a Mission (or other operating unit) feels is within its overall manageable interest--that it can materially affect and for which it is willing to be held accountable.

- Performance Indicators: Dimensions or scales to measure program results against objectives.
- Program Activities: The inputs provided to produce program outcomes that, in turn, contribute to achieving the Strategic Objective.
- Program Outcomes: Represent lower-level Mission (or office) objectives that contribute to the achievement of one or more strategic objectives. A Mission's objective tree (or Program Logframe) can include several levels of program outcomes, which reflect the results of various project, non-project, policy reform, or the development interventions.
- Program Indicators: Criteria for determining or calibrating progress in the attainment of Program outcomes.
- Performance Standards: Degree or amount of expected change is an indicator over a designated time period.
- Program Goals and Subgoals: The higher order and longer-term goals to which the Mission's programs contribute.
- Other Activities: Activities that fall outside a Mission's core strategic objectives, but which a Mission pursues for particular political, historical, or practical reasons, or as experimental efforts. The other activities generally represent a relatively small portion of a Mission's portfolio.
- Cross-Cutting Issue: An issue of programmatic or policy concern that permeates an AID field Mission's portfolio and warrants unified planning and monitoring but which does not constitute a separate strategic objective.

Through iterations with individual USAID offices, the team proposed and revised Strategic Objectives and Program Outputs in order to arrive at ones which reflect the USAID's own views of its program. The Strategic Objectives were presented at a Mission-wide staff meeting on Jan. 20, 1992. The present "draft" report may be considered another iteration in a process which is subject to further refinement.

Progress was also made in identifying Performance and Program Indicators. Further work on these indicators and on baseline and expected outcome information systems associated with them will be needed.

C. Organization of the Report

The following chapter begins with a presentation of the USAID's program setting forth the rationale for the seven Strategic Objectives that support achievement of USAID Program Goals. For each Strategic Objective, Chapter II then notes its relation to the Program Goals, comments on its Performance, and discusses the supporting Program Activities and Outputs. For several Strategic Objectives, specific recommendations are made for further work to develop Performance Indicators and/or information systems. Chapter III discusses issues identified by the USAID which cut across the USAID program: Policy Change, Women in Development, and Infrastructure. Chapter IV present next steps for the further development and implementation of Program Performance Assessment System Monitoring. Finally, annexes present monitoring Women in Development activities and automation issues.

II. THE PROGRAM AND ITS PERFORMANCE MONITORING

A. Program Summary

This chapter describes USAID/Egypt (USAID) programs, discusses its performance monitoring, and identifies substantive issues that emerged during this exercise.

1. Program Goals and Objectives

The overall goal of USAID's activities in Egypt is enhancement of Egypt's role as a model of stability, democracy, free markets and prosperity in the region. In pursuit of this goal, the Mission has chosen to follow two subgoals: 1) increased economic growth led by the private sector; and 2) increased human resource productivity and quality of life. Consideration is currently being given to the addition of a third subgoal related to the strengthening of democracy, but no decision concerning the nature or magnitude of the Mission's efforts in this area has yet been taken.

The Mission's overall goal includes political and social as well as economic elements. Politically, indicators of "success" might include the continuation of a moderate government, the responsiveness of such a government to the interests and rights of minority and majority populations, and the continued functioning of Egypt as an effective model of stability and peace in the region. Numerous indices and measurement systems have been developed to gauge performance and progress in these areas, should the Mission choose to employ them. But, the dominant consideration on this matter is likely to be the informed view of senior USG policymakers.

Socially, the Mission's goal is perhaps best assessed in terms of progress towards providing the average Egyptian with the opportunities and services judged as essential for modern life. Economically, progress towards the Mission's stated goal can be judged in terms of sustained growth in GDP per capita, improved distribution of that growth and/or in real wages, and increased national and governmental commitment to the sustained use of competitive market mechanisms.

The first of the Mission's two current subgoals, increased economic growth led by the private sector, can be measured in terms of growth in per capita GDP, and increases in the ratio of private to public sector employment and GDP. Since population growth is seen as a constraint on economic development, total fertility rate should also be viewed as another subgoal indicator. Other possible indicators include measures of economic efficiency and/or competition, assuming suitable data

sources can be found or generated. Four strategic objectives contribute directly to the Mission's first subgoal. Strategic Objective No. 1, Increased Macroeconomic Stability and Market Pricing, encompasses USAID's ongoing efforts to support IMF and GOE effort to achieve a predictable and stable economic environment as reflected by conventional measures such as interest rates and inflation. Also included within this strategic objective are the results of USAID's various efforts to promote market pricing in a range of areas. The Mission proposes to contribute to this strategic objective by encouraging additional policy reform in fiscal, trade, and financial sectors and additional privatization; by promoting reductions in GOE subsidization of irrigation, water and sewerage, power, and health; and by direct cash transfers to help offset trade imbalances.

Strategic Objective No. 2, Increased Private Investment and Trade, also supports the Mission's first subgoal. This objective can be effectively monitored in terms of levels of investment, disaggregated into domestic and foreign sources, and level of exports, and possibly disaggregated by sector and/or destination. The Mission's proposed contribution to this objective includes agricultural as well as non-agricultural products, and emphasizes policy reform and institutional features. Various means of fostering access to U.S. materials, goods, equipment and technology and expertise, and provision of essential infrastructure (power, water, and telecommunications) to support commercial and industrial growth are also central to the Mission's program strategy in this area.

The Mission's third strategic objective, Increased Productivity Production, and Income in the Agricultural Sector, is again supported by a strategy that emphasizes policy change, technology transfer and increased efficiency of resource use. Performance can be most appropriately measured in terms of growth in the aggregate value of raw and processed agricultural commodities. Elements of USAID's multi-faceted approach to promoting this objective include input and product market liberalization, technology transfer, natural resource management, and reform of selected public sector institutions.

The fourth and last strategic objective of USAID's first subgoal is Increased Level and Effective use of Modern Contraceptive Methods. This objective is intended to contribute directly to long term increases in per capita income by limiting population growth and thereby reducing the denominator by which available GNP must be divided. Performance would most appropriately be monitored in terms of contraceptive prevalence rate, possibly disaggregated by urban/rural distinctions, by socio-economic group and/or by type of family planning method. USAID's intended interventions in this area build on past Mission activities to provide increased family planning services and improved service

quality. Newer interventions focus on improved family planning information for policymakers, and enhanced management capacity for those agencies implementing family planning services.

In addition to its efforts to promote capital investment, private enterprise and technical efficiency, the Mission's overall strategy for enhancing Egypt's role as a model country in the region includes a desire to improve public services and educational opportunities for the average Egyptian. It has accordingly identified a second subgoal, Enhanced Human Resource Productivity and Quality of Life. Given the obvious linkages between economic growth, productivity and human welfare, the Mission's two subgoals should be seen as fully interactive and mutually reinforcing. Several options exist with respect to measuring movement towards the Mission's second subgoal including the UNDP's Human Development Index (HDI), the real wage rate, and some measure of the extent to which Egyptian professionals leave for other countries which offer a better quality of life--the so-called "Brain Drain".

USAID/Egypt's strategy for achieving its second subgoal includes three strategic objectives. The first is Developed Sustainable, Preventive Health Services. The Mission intends to pursue this objective through a program that stresses health care cost recovery, increased immunization coverage against vaccine-preventable diseases, improved case-management of Acute Respiratory Infection (ARI), improved pregnancy outcomes, and, improved access to clean water and sewerage.

The Mission's sixth strategic objective, Improved Access to, and Quality of, Basic Education, is viewed by the Mission as a contribution both to human resource productivity and to the quality of life. The Mission's activities in this area emphasize increased primary school construction and maintenance, adoption and implementation of primary school curriculum reforms, and improved education information collection and policy-based analysis. The impact of these efforts can be assessed through basic enrollment rates, literacy rates, completion rates and test scores--all of which should be gender disaggregated where possible.

As its seventh and final strategic objective, the Mission is emphasizing Enhanced Public Utilities in Large Urban Areas. Infrastructure investments account for approximately 45% of Mission expenditures. While the Mission's strategy increasingly appears to view infrastructure investments as contributory to its private investment and child health objectives, it continues to view access to basic public utility services as being of value in its own right. With the phase-out of the Mission's decentralization portfolio, its focus with respect to infrastructure activities will be in urban areas and should presumably be assessed primarily in terms of urban coverage rates

and improvements in the reliability of the services provided. Those public utility services targeted in the Mission's present and anticipated portfolio include water, sewerage, electricity and telecommunications.

As suggested above, the Mission's portfolio and strategy is constructed around four basic principals--policy reform, physical infrastructure, institutional strengthening, and human productivity. Of these, the current and anticipated emphasis on policy reform represents the largest single change from the Mission's focus of attention in the recent past.

As a possible addition to its two principal subgoals, USAID/Egypt is considering a significant initiative in the area of Democratic Initiatives (DI). Should the Mission decide to undertake major program activities in DI, it might well choose to define a third subgoal in this area. Alternatively, the Mission might choose to treat these activities as initially experimental and outside its core strategy (i.e., as one or more "other significant Mission activities") until such time as they become more confident about the portfolio content and likely impact.

Many of the Mission's current activities have environmental implications. The Mission is also considering additional activities explicitly directed towards environmental objectives. Options for treatment of "environmental issues" include monitoring environmental effects and activities as a "cross-cutting issue" (see discussion below); elaborating or expanding the natural resource component of the Mission's strategic objective in agriculture; or developing a new strategic objective related to either or both of the Mission's two current subgoals.

Other areas in which the Mission has, and plans to continue, substantial efforts include PVO strengthening, participant training and university linkages between Egyptian and American scientists. There are three options with respect to PVO activities. First, if PVOs are viewed largely as mechanisms for the delivery of essential services, they should be seen as a "means" to achieve the Mission's other strategic objectives rather than a strategic objective or program outcome in its own right. A second option would be to treat PVO strengthening as central to a strategic objective in the DI area. In this event, an explicit philosophy concerning the contribution of PVOs to DI objectives should guide the choice of PVOs and strengthening activities. Finally, use of PVOs throughout the portfolio could be monitored as a "cross-cutting issue" in the event the Mission chooses not to adopt a new DI strategic objective.

The Mission's current participant training activities, we believe, are best seen as significant activities rather than strategic objectives as such. While these activities have potential linkages to the strategic objectives, these linkages

are not necessarily direct, their anticipated outcomes are modest rather than robust, and these activities are not expected to have an impact in the short term, that is, over the next three to five year. Given these criteria, we have decided not to include participant training under the Mission's basic programmatic approach for achieving its long-term goals.

A summary of our understanding of the Mission's goal, subgoals and strategic objectives is illustrated on the following page. Detailed discussion of each strategic objective are presented in the next section, and cross-cutting issues discussed in the following section. The Report's final section suggests some possible next steps for the Mission in developing its strategic objectives and related performance assessment activities. The annexes present additional information on indicators and monitoring procedures.

This report is based on extensive input from people throughout the Mission. It is best understood as an initial effort by the TDY team to suggest possible objectives, indicators and monitoring procedures for use by the Mission. We have no doubt that the objectives and indicators suggested here will be modified in the course of the Mission's ongoing strategic planning process and as experience accumulates regarding individual indicators and elements of the program strategy.

2. Monitoring Program Goals and Subgoals

The strategy proposes significant improvements in the country's economic, social and political systems. The indicators appropriate for assessing changes at the goal and sub-goal levels are, for the most part, available from central data sources. Suggested indicators at the goal and subgoal include:

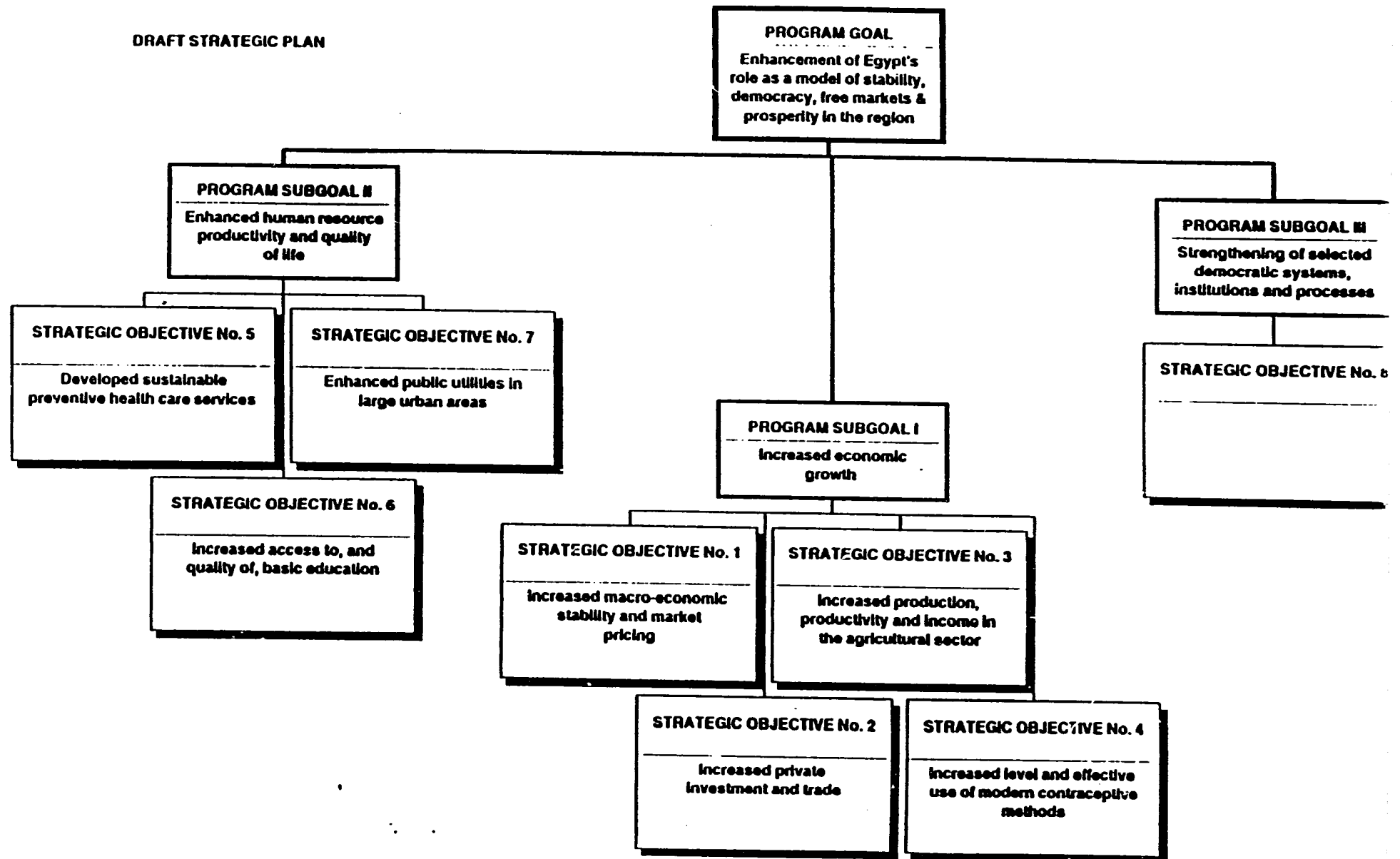
PROGRAM GOAL. Enhancement of Egypt's role as a model of stability, democracy, free markets and prosperity in the region:

- Politically moderate governments.
- Peaceful transitions.
- Freedom House Index.
- Leadership in the Middle East Process.
- Real wage bill.
- Trends in GDP per capita.
- GINI coefficient.

PROGRAM SUBGOAL I. Increased economic growth:

- Annual per capita GDP growth rate.
- Private sector as percent of GDP.
- Employment (public and private).
- Total fertility rate.

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PROGRAM SUBGOAL II. Enhanced human resource productivity and quality of life:

- UNDP Human Development Index.
- Real wage rate.
- "Brain Drain" --Egyptian professionals leaving for other countries.

PROGRAM SUBGOAL III. Strengthening of selected democratic systems, institutions and processes.

The selection of indicators at this level should be finalized in consultation with the Near East Bureau in order to ensure maximum utility of the available data for comparative analysis and external reporting. Data on indicators selected for use should be reconstructed or compiled for a period beginning 10 or 15 years ago, where possible, so as to facilitate analysis of changes over time.

3. Substantive Issues

There are several issues of a substantive nature that have emerged from discussions during this TDY. Each issue is a potentially interesting item for discussion in the context of the Mission strategy development efforts. The items that particularly stood out were:

- Number of Strategic Objectives. At present, the objectives as stated in the Mission Draft Strategy Statement (January 1992) include most of the activities that offices are already doing and several things they are considering. Some of these new considerations (such as DI and environment) could involve new strategic objectives, but most involve additional breadth for existing strategic objectives and/or new program outcomes. This raises the issue of management capacity.
- Infrastructure. There are four main issues: 1) the emphasis of the current portfolio on large urban areas; 2) the implications of a stronger link to the promotion of private investment (e.g., the suggested role of new industrial cities); 3) the appropriateness of the expectation that the Mission be held responsible for the proper maintenance of the infrastructure that it finances; and 4) the mechanism to be used for a significant data collection effort for performance and program outcome indicators of water and wastewater systems.

- Agriculture. There are four issues: 1) the level, scope, and nature of the Mission's involvement in processing and marketing; 2) whether or not to limit the focus to selected commodities; 3) the links (substantively and managerially) between the agricultural policy agenda and the agenda for the four sector grants under preparation; and 4) the feasibility of measuring "efficiency."
- Trade and Investment. The two principal issues are: 1) the need for additional clarity on the nature of the Directorate's program outputs and the relationship among them; and 2) the nature and extent of the Mission's strategy regarding investment, specifically, the feasibility of taking on a strategic objective related to increases in private investment with a strategy that appears to be exclusively based on the conditionalities associated with the sector grants. Some in TI would argue that either the strategic objective should be stated more modestly or new project activities should be undertaken in the investment arena. This deserves more discussion at the Mission level.
- Human Resources and Development Cooperation. There are at least three significant issues: 1) whether or not the Mission is going to have a strategic objective or any kind of major activity in the DI area; 2) in education, the number of significant activities that fall strictly outside the basic education strategic objective, but fit into a long-term Mission strategy; and 3) the placement of family planning under Subgoal No. 1 on the objective tree. The latter point is, in one sense, much ado about nothing inasmuch as its placement would appear to have no operational implications in terms of the content of the family planning program or its target audience.
- Economic Policy. The major issue is to determine the most effective way to monitor and report on success regarding the Mission's overall policy agenda.

**B. Strategic Objective 1: Increased Macroeconomic Stability
Market Pricing**

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

1. Rationale

The Government of Egypt has developed a comprehensive economic reform program. USAID has worked with GOE to define medium and long-term benchmarks. USAID has agreed to sector grants disbursed in tranches based on its assessments of policy reform progress. See Annex III, *Egypt's Reform Program*.

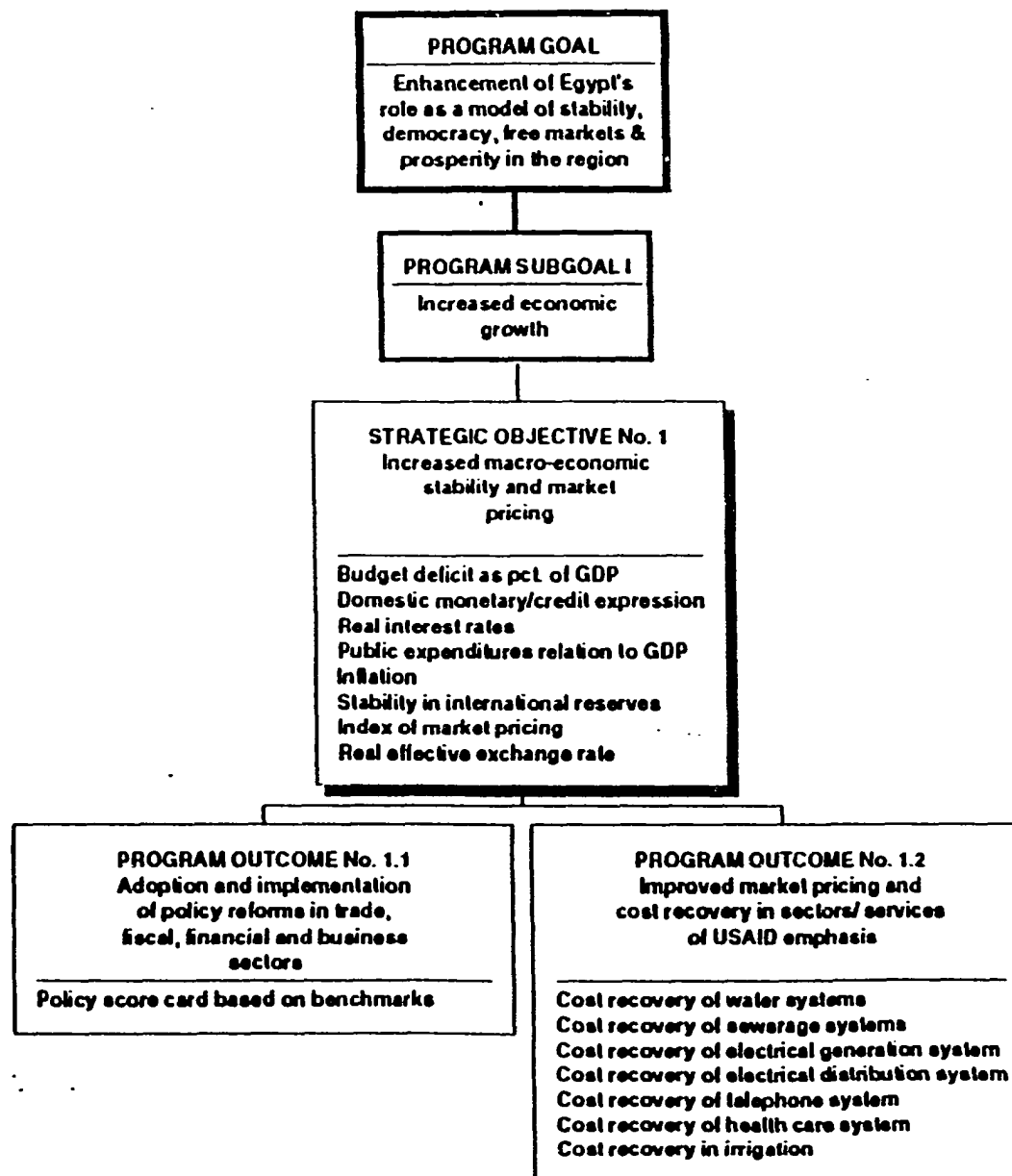
To help build Egypt's capacity for self-sustaining growth, USAID will continue to provide funding for capital improvements in water, sewerage, and electric power infrastructure in response to significant movement towards the economic pricing of these public utility services.

2. Performance Indicators and Data Sources

Performance Indicators:

- Budget deficit as percent of GDP. The responsibility is with the Economic Affairs Section (Data Source: EAS).
- Domestic monetary/credit expression. The responsibility is with EAS. (Data Source: EAS).
- Real interest rates. The responsibility is with EAS. (Data Source: EAS).
- Public Expenditures relation to GDP. The responsibility is with EAS.
(Data Source: EAS).
- Inflation rate. The responsibility is with EAS.
(Data Source: EAS).
- Stability in international reserves. The responsibility is with EAS.
(Data Source: EAS).
- Index of market pricing. The responsibility is with EAS.
(Data Source: EAS)

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- Real effective exchange rate. The responsibility is with EAS.

(Data Source: EAS)

- Savings and investment as percent of GDP.

(Data Source: EAS).

3. Program Outputs, Indicators, and Activities

Supporting Strategic Objective No.1 are the Sector Policy Adjustment Grant Program, Public Finance Administration Project, improved market pricing and cost recovery in sectors and services supported by AID.

Program Outcome No. 1.1. Adoption and Implementation of Policy Reforms in Trade, Fiscal, Financial and Business.

Outcome Indicators:

- Policy score card based on benchmarks. The responsibility is with EAS.

(Data Source: EAS has a computerized tracking system for monitoring the progress of Egypt's reform program (Mervat)).

Program Outcome No. 1.2: Improved Market Pricing and Cost Recovery in Sectors/Services of USAID Emphasis.

Outcome Indicators:

- Cost Recovery of Water Systems: Urban water O&M expenditures divided by urban water revenues in targeted areas.

(Data Source: Local water/wastewater utilities; data collection system needs to be developed and implemented.)

- Cost Recovery of Sewerage Systems: Urban sewerage O&M expenditures divided by urban sewerage revenues in targeted areas.

(Data Source: Local water/wastewater utilities; data collection system needs to be developed and implemented.)

- **Cost Recovery of Electrical Generation System:** Electricity generation O&M expenditures divided by electricity revenues.

(Data Source: Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)

- **Cost Recovery of Electrical Distribution System:** Electricity distribution O&M expenditures divided by electricity revenues.

(Data Source: Electricity Distribution Authority (EDA), Annual Statistical Report.)

- **Cost Recovery of Telephone System:** Telephone system O&M expenditures divided by telephone system revenues.

(Data Source: Arab Republic of Egypt National Telecommunications Organization (ARENTO) Statistical Reports.)

- **Number of water user associations created, and number of farmers (male and female) enrolled, with a functioning cost recovery scheme.**

(Data Source: Irrigation Advisory Service of NARP Project.)

Program Activities:

- **Provision of water system infrastructure with covenants and condition precedents for increasing water tariffs to promote rational investment and consumption decisions.**
- **Provision of sewerage system infrastructure with covenants and condition precedents for increasing sewerage tariffs to promote rational investment and consumption decisions.**
- **Provision of electrical infrastructure with condition precedents for reduction of electricity subsidies to promote rational investment and consumption decisions.**
- **Organization of water user associations on "mesqa" channels with cost recovery mechanisms, and water management techniques.**

C. Strategic Objective No. 2. Increased Private Investment and Trade.

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following two pages.

1. Rationale

See Annex IV, *USAID Egypt: Private Sector Strategy* (Rev. 2) for a complete statement of rationale and historical background.

Egypt is working to remove the constraints to economic growth. This fundamental shift from a state-controlled economy to a market-oriented economy has focused GOE and USAID to a strategy of increased growth through major policy changes and the promotion of competitive private markets. Changes in economic policies will have the broadest impact on Egypt's economic performance and are important to other activities under the strategic objective. A second major activity is the development and strengthening of local private sector business institutions. Other program activities include support to Small and Medium Enterprises (SMEs), privatization of government owned-firms, financial market liberalization, and an emphasis on public infrastructure in support of private investment.

2. Performance Indicators and Data Sources

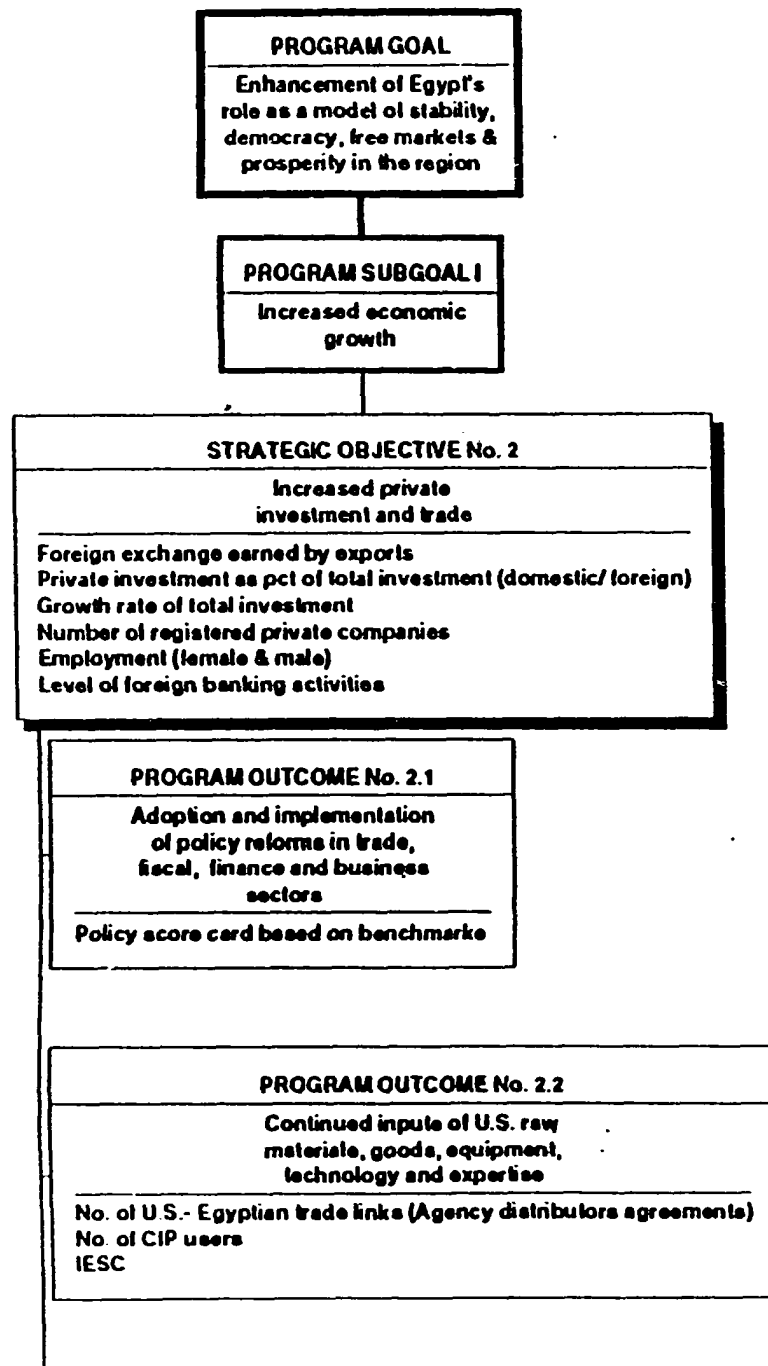
- Foreign exchange earned by exports. The responsibility is with EAS.

(Data source: EAS)
- Private investment as percent of total investment (domestic/ foreign). The responsibility is with EAS. Currently only base-line data will be reported.

(Data Source: EAS).
- Growth rate of total investment. The responsibility is with EAS. Currently only base-line data will be reported.

(Data Source: EAS).
- Number of registered private companies. The responsibility is with EAS.

(Data Source: EAS).
- Employment (female & male). The responsibility is with EAS. Currently only base-line data will be reported.
(Data Source: EAS).



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No. of CIP users
IESC

PROGRAM OUTCOME No. 2.3

**Establishment & strengthening
of institutions and information
systems for promoting
investment and exports**

Names of specific institutions and their related products and services by categories)

Volume (traded) companies on the stock exchange list

Institution performance (No. of members of membership organizations or magnitude of service delivery)

New kinds of financial instruments (by category)

PROGRAM OUTCOME No. 2.4

**Increased coverage and
sustainability of SME services**

**No. & pct of SME receiving credit from SME development programs and commercial banks (at positive real interest rates)
Lending charge as a pct of cost of service in AID programs**

PROGRAM OUTCOME No. 2.5

**Increased privatization of
government owned firms,
authorities and services**

**Number of state-owned enterprises sold
Valuation of state-owned enterprises sold**

PROGRAM OUTCOME No. 2.6

**Power, telecommunication and
water provided to enable the
growth of private industry and
commerce in urban areas**

Total urban infrastructure capital expenditures (water, sewerage, power, and telecommunications) provided to targeted areas

Pct of total urban infrastructure capital expenditures (water, sewerage, power, and telecommunication) in areas targeted for industrial and commercial growth

- Level of foreign banking activities. The responsibility is with EAS. Currently only base-line data will be reported.

(Data Source: EAS).

3. Program Outputs, Indicators, and Activities

Supporting Strategic Objective No. 2 is the Sector Policy Adjustment Grant Program. This activity is shared by Strategic Objective No. 1. The Commodity Import Program (CIP) promotes private sector inputs of U.S. products in Egypt through distributor agreements. This activity is in transition from providing foreign exchange access to maintaining systems for linking U.S. trade. The SME activity promotes the establishment of institutions (the Egyptian ESED foundation in Cairo, the Alexandria Businessmen's Association (ABA); and ten other organizations) to represent the largely informal sector of small businesses in Egypt. Technical assistance for liberalizing the financial markets, including securities market legislation, stock exchange organizations, and the introduction of new private financial intermediation, are included in the program. An important transition activity is the privatization of state-owned firms and making public utilities on a sound economic pricing basis. In order to stimulate private sector investment, USAID will provide capital investment in public utility infrastructure that provide services promoting commercial and industrial growth in large urban areas, including water and wastewater systems, electric generating and distribution facilities, and telephone exchanges.

Program Outcome No. 2.1. Adoption and implementation of policy reforms in trade, fiscal, finance and business sectors.

ECES, Private Sector Grant (263-0230) - Trade and Financial sectors and the World Bank program SAP TA Grant (263-0233) support Program Outcome No. 2.1.

Outcome Indicator:

- Policy score card based on benchmarks. The responsibility is with EAS.

(Data Source: EAS has a computerized tracking system for monitoring the progress of Egypt's reform program (Mervat))

Program Outcome No. 2.2. Continued inputs of U.S. raw materials, goods, equipment, technology and expertise.

The CIP (private investment) supports this program outcome.

Outcome Indicators:

- No. of U.S.- Egyptian trade links (Agency distributor agreements). The responsibility is with Finance and Investment Office.

(Data Source: Finance and Investment Office).

- No. of CIP users. The responsibility is with Finance and Investment Office.

(Data Source: Finance and Investment Office).

- IESC. The responsibility is with Finance and Investment Office.

(Data Source: Finance and Investment Office).

Program Outcome No. 2.3. Establishment & strengthening of institutions and information systems for promoting investment and exports.

EED grant (263-0226 new project), Export Enterprise Development; Production Credit Banker's Training Institute (263-0147 ending); and International Executive Service Corps (263-0102/FT800) (263-0229 follow-on); and SAP TA Grant (263-0233) support this program outcome.

Outcome Indicators:

- Names of specific institutions and their related products and services by categories). The responsibility is with Finance and Investment Office (Brown).

(Data Source: Finance and Investment Office).

- Volume (trade) companies on the stock exchange list. The responsibility is with Finance and Investment Office (Brown).

(Data Source: Finance and Investment Office).

- Institution performance (Number of membership organizations or magnitude of service delivery). The responsibility is with Finance and Investment Office (Brown).

(Data Source: Finance and Investment Office).

- New kinds of financial instruments (by category). The responsibility is with Finance and Investment Office (Brown).

(Data Source: Finance and Investment Office).

Program Outcome No. 2.4. Increased coverage and sustainability of SME services.

SME (263-0212) Small Enterprise Credit (263-0228), and Credit Guarantee Fund Corp. (0201.03) support this program outcome.

Outcome Indicators:

- Number and percent of SMEs receiving credit from SME development programs and commercial banks (at positive real interest rates). The responsibility is with Finance and Investment Office (Hammann).

(Data Source: Finance and Investment Office).

- Lending charge as a percentct. of cost of service in AID programs. The responsibility is with Finance and Investment Office (Hammann).

(Data Source: Finance and Investment Office).

Program Outcome No. 2.5. Increased privatization of government owned firms, authorities and services.

Partnership in Development (263-0102.1); Public Enterprise Office (new, short term); and SAP TA (263-0223) support Program Outcome No. 2.5.

Outcome Indicators:

- Number of state-owned enterprises sold. The responsibility is with Finance and Investment Office (Barth).

(Data Source: Finance and Investment Office).

- Valuation of state-owned enterprises sold. The responsibility is with Finance and Investment Office (Barth).

(Data Source: Finance and Investment Office).

Program Outcome 2.6: Power, telecommunication, water, and sewerage provided to enable the growth of private industry and commerce in urban areas.

Outcome Indicator:

- Total urban infrastructure capital expenditures (water, sewerage, power, and telecommunications) provided to targeted areas.

(Data Source: USAID project documentation.)

Program Activities:

- Improvement and expansion of water and wastewater systems.
- Construction of new electric generation and distribution facilities.
- Provision of new telephone exchanges.

D. Strategic Objective No. 3: Increased productivity, production, and income in the agricultural sector.

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

1. Rationale

Agriculture in Egypt accounts for about 20% of gross domestic product, 36% of employment, and 22% of commodity exports. Production of agricultural inputs and processing and marketing of commodities encompasses another 10% of GDP. In spite of its importance, the agriculture sector has been growing for the last 25 years slightly below the population rate. Employment in agriculture during the same period has grown at less than one percent per year. The lack of strong performance in agriculture has been a significant brake on industry and overall economic growth. Increasing productivity and production in agriculture provides food, raw materials, and capital for industry, which in turn provides inputs to agriculture.

Government control of agriculture is pervasive. Controls exist on prices, planting, and marketing for many crops, and most inputs are supplied by a public sector institution (PBDAC). In many cases, the private sector is prohibited from participating in the provision of inputs or the marketing of crops. Severe inefficiencies have resulted from such pervasive public sector control.

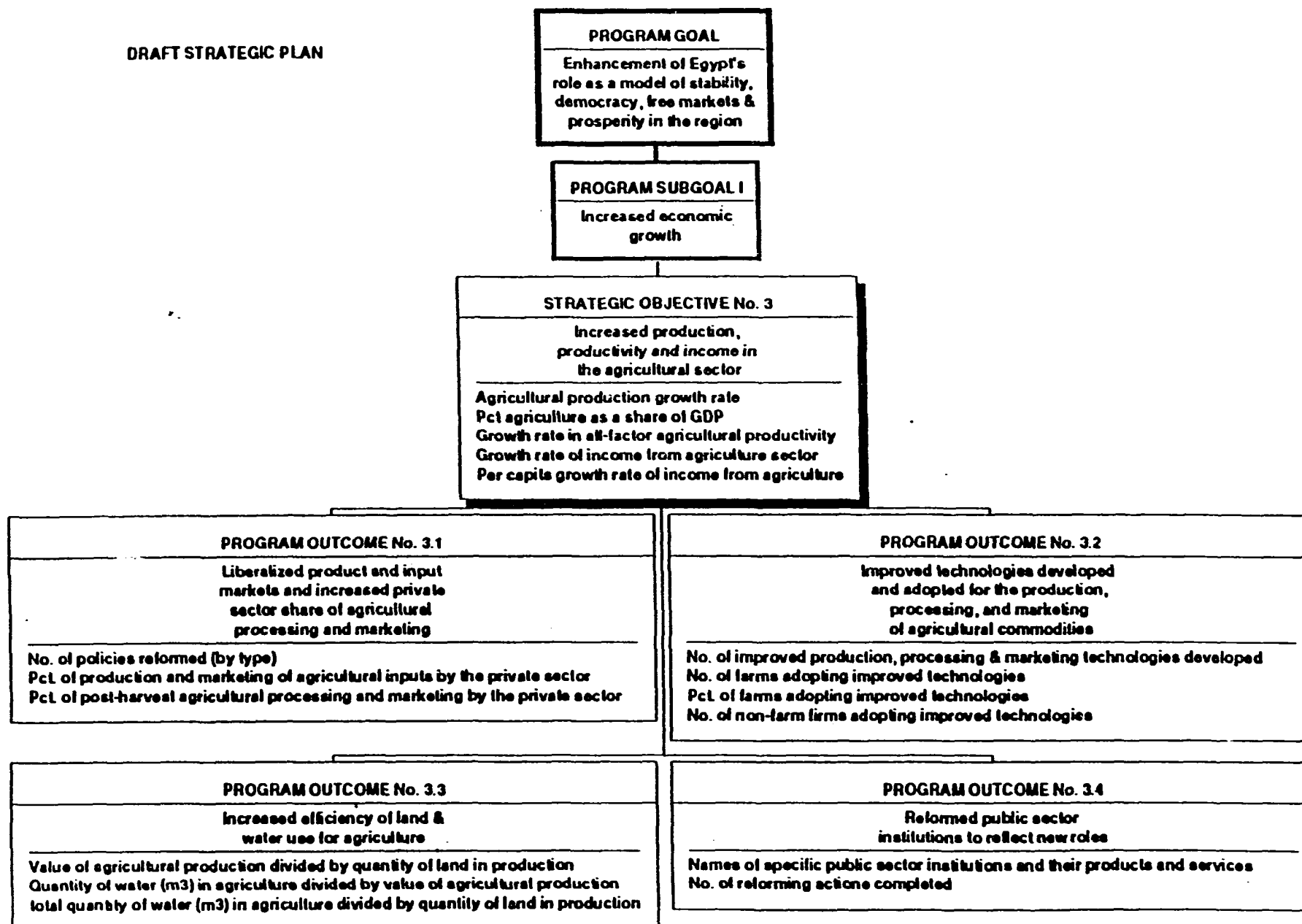
The Agricultural Resources Directorate will seek to stimulate agricultural production and income in Egypt through productivity gains directly linked to policy and regulatory reform and privatization of product and input markets, decreased public sector involvement in production, processing, marketing, and input supply, technology development and transfer, and increased efficiencies in water and land use for production.

2. Performance Indicators and Data Sources

Performance Indicators:

- Growth in agricultural factor productivity.
(Data Source: MOA Undersecretariat for Agricultural Economics and Statistics.)
- Agricultural production growth (absolute and share of GDP).
(Data Source: MOA Undersecretariat for Agricultural Economics and Statistics.)

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- Growth in total and per capita income in the agriculture sector.

(Data Source: MOA Undersecretariat for Agricultural Economics and Statistics.)

3. Program Outputs, Indicators, and Activities

Program Outcome No. 3.1. Liberalized product and input markets and increased private sector share of agricultural processing and marketing.

Outcome Indicators:

- Number, type, and economic impact of policies reformed.

(Data Source: APCP and Agricultural Policy Reform Program surveys and impact studies.)

- Percentage of production and marketing of agricultural inputs by the private sector.

(Data Source: PBDAC statistics and APCP impact studies.)

- Percentage of post-harvest agricultural processing and marketing by the private sector.

(Data Source: Surveys and impact studies by NARP Policy and APCP Policy Sub-projects.)

Program Activities: Activities leading to this outcome are those policy initiatives currently under way in the Agricultural Production Credit project and planned in the upcoming Agricultural Reform program. These are complemented by activities in the Trade and Investment Directorate, notably those under the Partnership in Development and Export Promotion projects. APCP policy reform activities presently focus on raising cotton prices, reducing rice quotas, eliminating subsidies on inputs, reducing unsubsidized inputs marketed by PBDAC and other public enterprises, restricting subsidized production credit and increasing interest rates on loans to market levels, and reforming the structure of the seed production and marketing sector, while privatizing seed processing facilities.

The upcoming Agricultural Policy Reform program will focus on five policy concerns: price and marketing; private investment and privatization; public investment; subsidies; and environmental issues, notably irrigation cost recovery, fertilizer price policy, and the environmental impacts of privatization. Issues under price and marketing policy include farmer incentives and liberalization of marketing, processing, and international trade. Under private investment and privatization, activities will focus on removing GOE subsidies to public sector industries. Public investment policy will be reformed by requiring public proposals to submit to rigorous economic feasibility studies. Subsidy removal will focus on most agriculturally-related consumer goods. Issues to be addressed under environmental policy will include water pollution from pesticides and fertilizers, water logging and salinization, air quality deterioration, and industrial water pollution.

The Agricultural Resources Directorate plans to accompany its policy reform, market liberalization, and privatization promotion efforts with substantial assistance to agriculture sector institutions in the process of adapting to new roles in a changed economic environment. The substantial downsizing or divestiture of public sector organizations required under policy reform actions will require significant retraining of remaining staff and streamlining and increased efficiency of functions. Activities presently under way in the Principal Bank for Development and Agricultural Credit, Ministry of Agriculture, Agricultural Research Center, Water Research Center, and Central Administration for Seed will continue to support the transition to a liberalized, privatized economy in Egypt.

Program Outcome No. 3.2. Improved technologies developed and adopted for the production, processing, and marketing of agricultural commodities.

Outcome Indicators:

- Number of improved production, processing, and marketing technologies developed.
(Data Source: Small-scale surveys and impact studies by NARP and Agricultural Policy Reform Program.)
- Number and percentage of farms adopting improved technologies.
(Data Source: Small-scale surveys and impact studies by NARP and Agricultural Policy Reform Program.)

- Number of non-farm firms adopting improved technologies.

(Data Source: Small-scale surveys and impact studies by NARP and Agricultural Policy Reform Program.)

Program Activities: Activities leading to the achievement of this outcome are those currently under way through the Irrigation Advisory Service of the Irrigation Management Systems program, currently organizing water user associations and cost recovery for irrigation, and in the National Agricultural Research program (NARP). Less important but allied production or agro-processing techniques are also being promoted under the Agricultural Production Credit project (drip irrigation and production technology packages), the PVO Development project in the Program Office, and through the International Executive Service Corps of the Trade and Investment Directorate. Activities under NARP include:

- Improve and expand agricultural research through institutional improvements to the Agricultural Research Center (ARC) and technology-production-process improvements, including a research support program, research grants, and international collaborative research.
- Improve the agricultural technology transfer system by strengthening the planning and management capabilities of the ARC Extension Affairs Division, decentralizing public extension service improvements; supporting non-public extension service agencies; and strengthening researchers' technology transfer capabilities.
- Strengthen the policy analysis capabilities and formulation process within the Ministry of Agriculture and strengthen the agricultural statistical and data processing services within the Agricultural Economics Research Institute and the Undersecretariat for Agricultural Economics and Statistics.
- Increase agriculture productivity through improving seed quality and promote the development of a private sector seed industry.

Program Outcome No. 3.3. Increased efficiency of water and land use for agriculture.

Outcome Indicators:

- Value of agricultural production divided by the quantity of water used in agriculture (output value per m3).

(Data Source: Statistics from MOA Undersecretariat for Agricultural Economics and Statistics on production value and from MPWWR on water.)

- Value of agricultural production divided by the quantity of land in production (output value per feddan).

(Data Source: Statistics from MOA Undersecretariat for Agricultural Economics and Statistics on production value and land in production and from the IMS Survey and Mapping Sub-project on land in production.)

- Quantity of water used in agriculture divided by the quantity of land in production (m3 per feddan).

(Data Source: Statistics from MPWWR for water and from MOA Undersecretariat for Agricultural Economics and Statistics and the IMS Survey and Mapping Sub-project on land in production.)

Program Activities: Program activities leading to achievement of this outcome are those currently under way in the Irrigation Management Systems program (IMS). These are:

- Integrate rehabilitation and improvement of the delivery system infrastructure with improvement of the farm delivery system and on-farm water management practices.
- Construct or replace irrigation structures on lateral, branch, and main canals.
- Plan and implement a country-wide preventive - maintenance and channel maintenance program.
- Improve monitoring and management of the Nile River and major canals through telemetry, communication, and automated pilot canal control.
- Improve operation of the Aswan High Dam/Lake Nassar complex and improve the water delivery system from the

dam to the sea through the development of a set of planning and operation models.

- Support management and technical professional development of the Ministry of Public Works and Water Resources through in-country, in-service training.
- Develop the long-term capabilities of the Water Research Center and its institutes to provide solutions to irrigation and water use problems.
- Develop the capacity within the Ministry of Public Works and Water Resources to analyze project proposals and prepare quality reports through the effective functioning of a Project Preparation Department.
- Improve the capacity of the Egyptian Survey Authority to produce maps and aerial photographs for irrigation system improvement and cadastral updating.

E. Strategic Objective No. 4. Increased level and effective use of modern contraceptive methods.

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

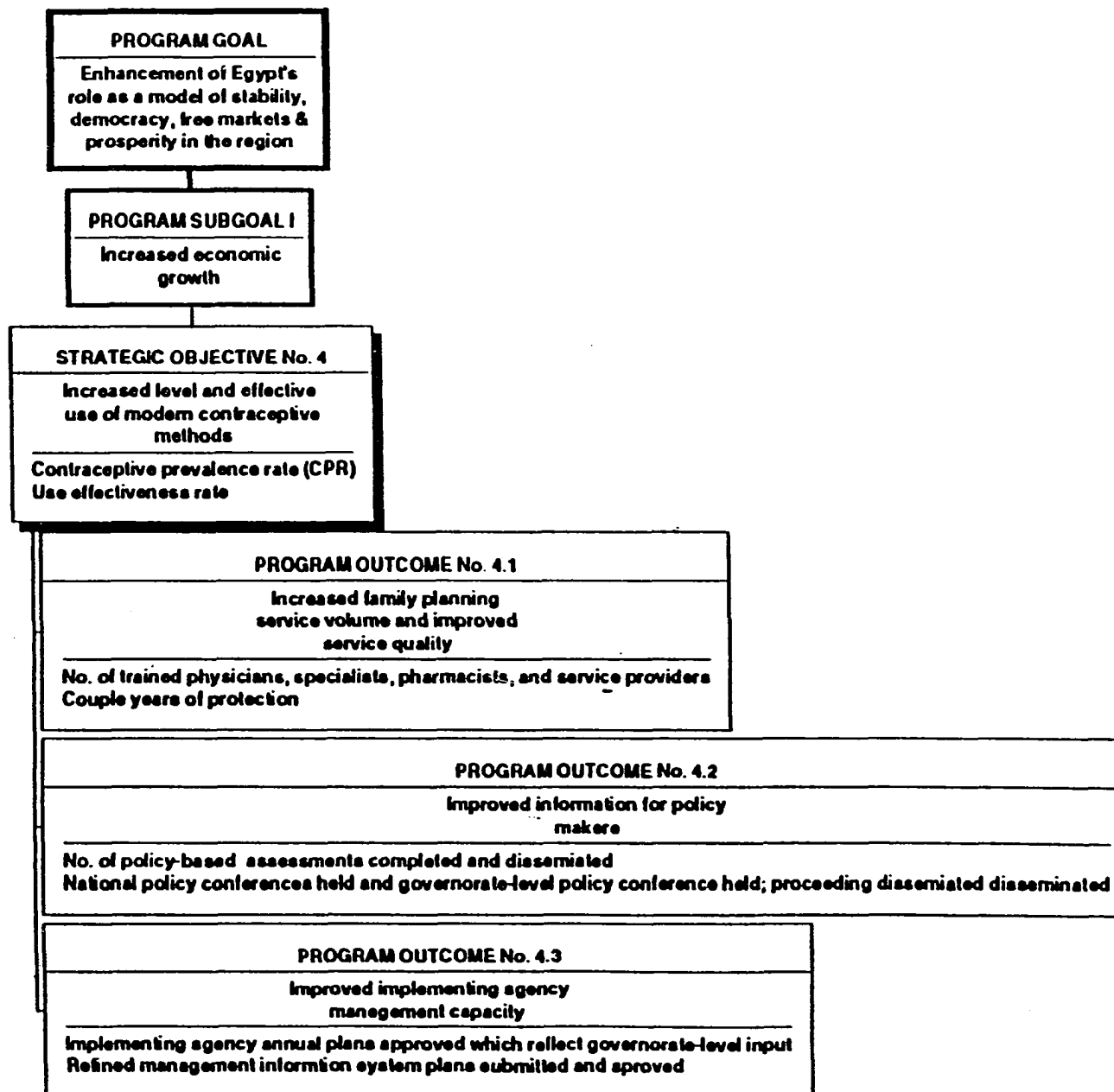
1. Rationale

Over the past two decades, USAID/Egypt has made a major investment in a wide range of population and family planning activities. These include projects to provide expanded access to family planning, adequate provision of contraceptives, improved service delivery, and overall support for institution strengthening. Since 1975 USAID has been the principal donor supporting the Government of Egypt's population and family planning activities.

USAID/Egypt sees expanded coverage and more effective use of contraceptive methods as a way to lower fertility and, subsequently, reduce population growth. In the long term, this will allow the economy to grow in real terms since rapid population growth is viewed as a key constraint to economic development rather than solely in terms of improving the social quality of Egyptian life. At the same time, the Mission recognizes that widespread and effective use of contraceptives will also have positive, more immediate effects on education and health, food supply and distribution, and population overcrowding and housing. Further, the Mission acknowledges the strong link between contraceptive usage and fertility but is also cognizant of other socio-economic factors which can influence fertility such as education and the employment status of women.

The current strategy reflects a gradual shift in emphasis from mainly expanding family planning services. Rather, the Mission seeks to consolidate the impressive gains it has already achieved by focusing more of its activities on a limited number of implementing agencies, strengthening their institutional management, and improving the availability of family planning information for program managers and policy makers. To support this new emphasis, for example, USAID/Egypt will focus more on training family planning specialists (physicians, nurses, pharmacists, etc.) and improving the coordination of Egyptian family planning agencies. The Mission also supports activities to collect, analyze, and report family planning and population information in order to inform government policy.

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2. Performance Indicators and Data Sources

Performance Indicators:

- Contraceptive prevalence rate (CPR).

(Data Source: Demographic Health Survey [DHS]). The DHS is conducted every four years in Egypt. Baseline data will be available for 1988 and DHS will conduct additional surveys in 1992 and 1996.

- Use effectiveness rate. This refers to contraceptive pill and I.U.D. use effectiveness. These two methods together account for 88 percent of all Egyptian family planning practices.

(Data Source: DHS).

3. Program Outputs, Indicators, and Activities

The strategy to support this strategic objective is to expand the amount or volume of family planning services as well as to enhance the quality of the services provided. The Mission's current activities, under the Office of Population, consist of seven components which are part of the Population/Family Planning II Project or simply POP II. These components provide support to the Government of Egypt to strengthen and expand a wide range of family planning activities, improve demographic data collection and analysis, develop institutional planning capacities, provide an adequate supply of contraceptives, promote private and commercial sector family planning, support mass media campaigns, and provide technical assistance where needed. These activities are better seen as related sub-projects or activities under POP II rather than described separately under each program outcome below.

As POP II begins to wind down, plans to implement a second generation project--Population/Family Planning III Project--are underway. For strategic planning purposes, Strategic Objective No.4, and the program outcomes which support it, reflect activities under the new project. These activities will not be fully operational until May 1993 so current performance indicator data should be viewed more as baseline or transitional data--or reflective of POP II (where applicable)--rather than as a direct consequence of POP III interventions.

Program Outcome No. 4.1. Increased family planning service planning volume and improved service quality.

Outcome Indicators:

- No. of trained physicians, specialists, pharmacists, and service providers.

(Data Source: POP III; Annual Project Reports or Project Quarterly Reports which include training records with names, gender and location.)

- Couple years of protection.

(Data Source: DHS)

Program Outcome No. 4.2. Improved information for policy makers.

Outcome Indicators:

- No. of policy-based assessments completed and disseminated.

(Data Source: POP III Annual Project Report with copies of policy documents and report distribution lists.)

- National policy conference held and percent of governorate-level policy conferences held; proceedings from both disseminated.

(Data Source: POP III Annual Project Report and Quarterly Project Reports with attendees lists)

Program Outcome No. 4.3. Improved implementing agency management capacity.

Outcome Indicators:

- Implementing agency annual plans approved which reflect governorate-level input (as appropriate).

(Data Source: POP III Annual Project Report with list of contributing governorates)

- Refined Management Information System (MIS) plans submitted and approved.

(Data Source: POP III Annual Project Report)

F. Strategic Objective No. 5. Developed sustainable, preventive health care services.

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

1. Rationale

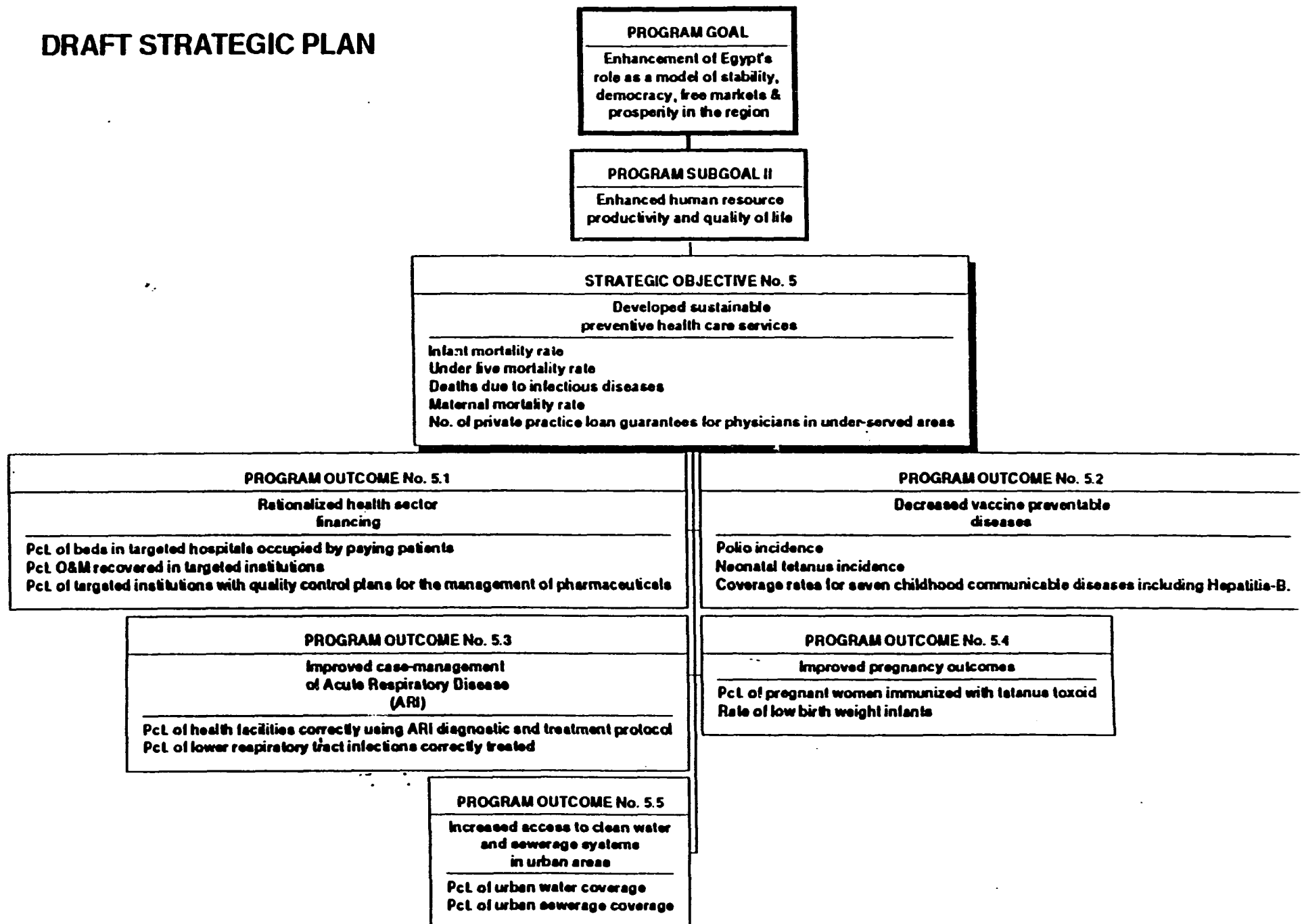
USAID/Egypt will continue to support existing programs in maternal and child health such as childhood immunization but the Mission is moving to introduce a range of cost recovery mechanisms--such as fee-for-service patient care--into its portfolio. Initially, Mission support for maternal and child health took two separate but related paths. The first path emphasized support for health facilities such as primary care hospitals, rural and urban health clinics, and maternal and child health clinics. This early support was combined with manpower training for doctors, nurses, and other health professionals. As a consequence, Egypt now has one of the best ratios of hospitals and physicians per capita than almost any other developing world country. However, discrepancies in health care access between urban and rural areas still exist. Further, while access to public sector health facilities is relatively easy, the quality of care varies greatly, and most Egyptians prefer private sector health services.

USAID/Egypt's second path to improve maternal and child health focused on disease prevention. As part of its child survival strategy, the Mission has funded major nationwide projects and programs to vaccinate newborn children against major communicable diseases and to instruct mothers in the use of oral rehydration therapy (ORT) to prevent death due to diarrheal disease. These efforts have produced high immunization coverage rates and impressive reductions in infant mortality. More recently, the Mission has focused on reducing infant and child deaths due to acute respiratory infection (ARI).

USAID/Egypt will continue efforts to sustain its impressive gains in child survival with similar projects but continued investments in this strategy will be very modest in scope and intensity compared to earlier efforts. Also, the Mission is focusing on a more defined set of problems such as ARI and neonatal tetanus than previously attempted. The Mission's new orientation will try to introduce health cost recovery mechanisms and to involve the private sector where ever possible. This strategy shift reflects increasing recognition that the provision and sustainability of quality health services in Egypt is linked to USAID's broader goals to enhance human productivity and accelerate economic growth.

To support this new emphasis on cost recovery, for example, USAID plans to initiate fee-for-service polices in selected Ministry of

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Health hospitals and upgrade management information systems in existing fee-for-service public hospitals. The Mission encourages banks to provide loan guarantees to private health care professionals to establish their practices in underserved areas. Other prominent Mission health-related activities support collaborative research with U.S. scientists on basic and applied research--schistosomiasis--and a more generalized program to promote scientific exchange among leading U.S. and Egyptian health professionals. Consistent with the preventative thrust of this strategic objective, the Mission is also supporting AIDS prevention.

USAID will also continue to support the health strategic objective by improving and expanding urban public utility services to provide safe potable water and sewerage disposal. Finally, looking beyond the current strategic objective, the Mission has begun to identify emerging health problems--those associated with older children and adults, and those associated with modern lifestyles such as smoking and environmental pollution--in order to plan for future strategies.

2. Performance Indicators and Data Sources

Performance Indicators:

- Infant mortality rate.
(Data Source: Child Survival Project Quarterly Report)
- Under five mortality rate.
(Data Source: Child Survival Project Quarterly Report)
- Deaths due to infectious diseases.
(Data Source: Ministry of Health Statistics, annually)
- Maternal mortality rate.
(Data Source: Child Survival Project Quarterly Report)
- Number of private practice loan guarantees for physicians in under-served areas.
(Data Source: Cost Recovery for Health Project Quarterly report)

3. Program Outputs, Indicators, and Activities

Five programs, under the Office of Health, support the strategic objective. Three of those focus on USAID's long-term and very successful Child Survival Program, namely, improved immunization coverage of vaccine-preventable childhood diseases, improved case-management of acute respiratory disease (ARI), and improved pregnancy outcomes. Each of these is associated with well established indicators. Of the two remaining programs, rationalized health sector financing and access to clean water, the first represents a new thrust by USAID--where, as expected, indicators are in the early stages of development. In the latter case--access to clean water and sewerage systems in urban areas--USAID has ongoing and long-term projects committed to infrastructure development with clearly defined indicators.

Program Outcome No. 5.1. Rationalized health sector financing.

Outcome Indicators:

- Percent of beds in targeted facilities occupied by paying patients.

(Data Source: Cost Recovery for Health Project Annual Report)

- Percent O&M recovered in targeted institutions

(Data Source: Cost Recovery for Health Project Annual Report; Curative Care Organization [CCO] Annual Balance Sheet, Annual Financial Report of the Health Insurance Organization [HIO]).

- Percent of targeted institutions with quality control plans for the management of pharmaceuticals

(Data Source: Annual Report of Health Insurance Organization)

Program Activities:

The Cost Recovery for Health Program, the primary activity to support this program, consists of three components. The first focuses on converting selected hospitals and clinics to fee-for-service. The second component focuses on improving management practices in already "converted" hospitals. The final component encourages banks to provide loan guarantees, supports prepaid group practices, and enhances management for private care physicians--all of which lend to expansion of private health care.

Program Outcome No. 5.2. Decreased vaccine preventable diseases.

Outcome Indicators:

- Polio incidence.

(Data Source: Ministry of Health annual records; and Child Survival Project--Semiannual Report)

- Neonatal tetanus incidence.

(Data Source: Ministry of Health annual records; and Child Survival Project--Semiannual Report)

- Coverage rates for seven childhood communicable diseases including Hepatitis-B.

(Data Source: Ministry of Health annual records, and Child Survival Project--Semiannual Report)

Program Activities:

The Child Survival Project (CSP) is the primary support for this activity and also supports Program Outcome 5.3 (Case-Management of Acute Respiratory Disease [ARI]) as well as Program Outcome No. 5.4 (Improved Pregnancy Outcomes) cited below. CSP consists of four interventions that focus on immunization against seven childhood communicable diseases including hepatitis-B, early diagnosis of Acute Respiratory Disease (ARI), child nutrition, and child spacing.

Program Outcome No. 5.3. Improved case-management of Acute Respiratory Disease (ARI).

Outcome Indicators:

- Percent of health facilities correctly using ARI diagnostic and treatment protocol.

(Data Source: Child Survival Annual Project Report and planned CSP studies)

- Percent of lower respiratory tract infections correctly treated.

(Data Source: same as above)

Program Activities: See activity description for No. 5.2

Program Outcome No. 5.4. Improved pregnancy outcomes.

Outcome Indicators:

- **Percent of pregnant women immunized with tetanus toxoid.**

(Data Source: Ministry of Health annual reports and UNICEF data every 3 years)
- **Rate of low birth weight infants**

(Data Source: Child Survival Annual Project Report and planned CSP studies)

Program Activities: See activity description for No. 5.2

Program Outcome 5.5: Improved Urban Water and Sewerage Systems

Outcome Indicators:

- **Percentage Urban Water Coverage:** Urban population with household water connections divided by total urban population.

(Data Source: National Organization for Potable Water and Sanitary Drainage (NOPWASD), Greater Cairo Water Supply (GOGCWS); data collection system needs to be developed and implemented.)
- **Percentage Urban Sewerage Coverage:** Urban population served by household connections to public sewerage divided by total urban population.

(Data Source: National Organization for Potable Water and Sanitary Drainage (NOPWASD), Cairo General Organization for Sanitary Drainage (C/GOSD), and Alexandria General Organization for Sanitary Drainage (A/GOSD; data collection system needs to be developed and implemented).)

Program Activities:

- **Improvement and expansion of water and wastewater systems.**

G. Strategic Objective No. 6. Increased access to, and quality of, basic education.

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

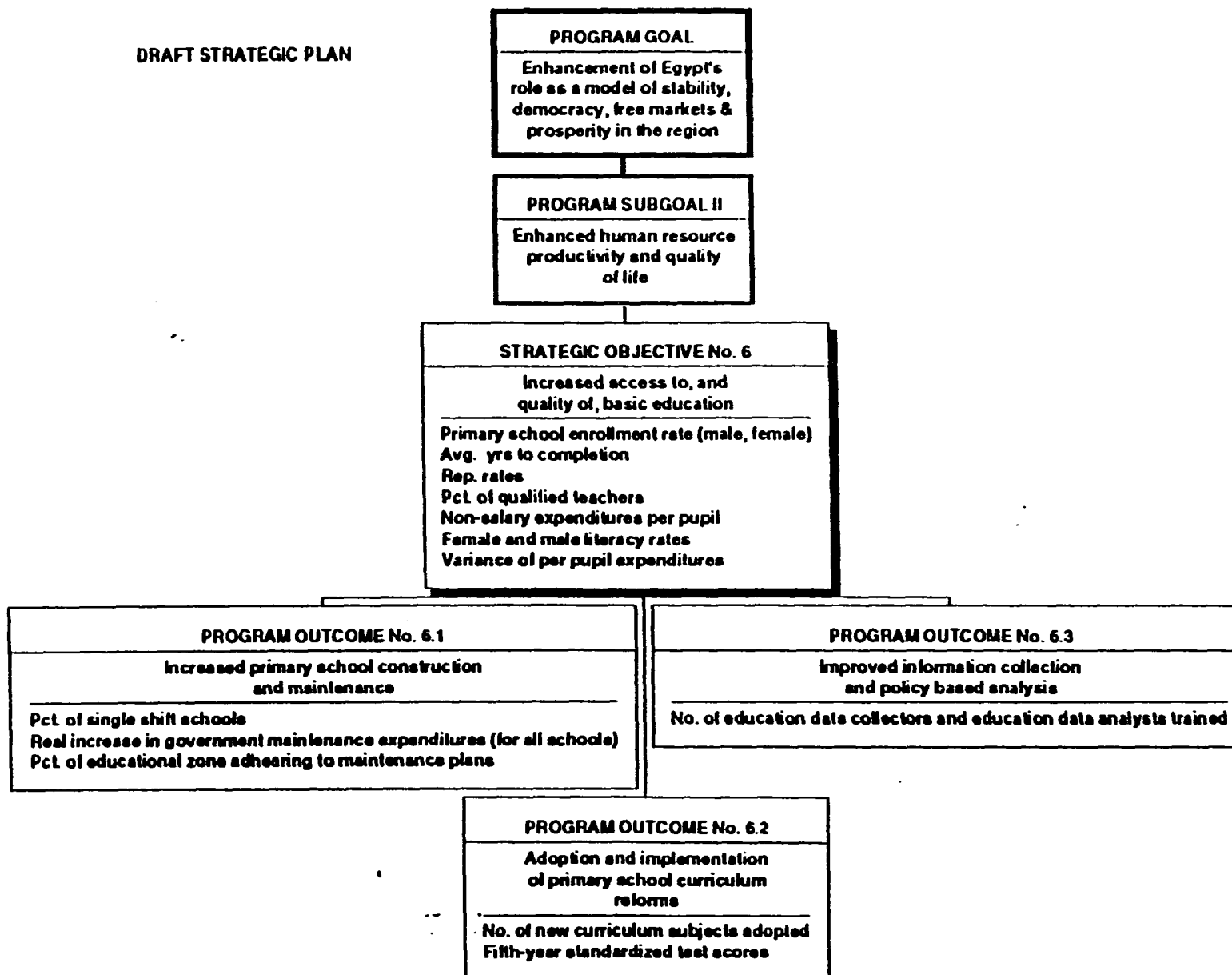
1. Rationale

Support for basic education has been a major thrust of the Mission over the past decade. The underlying assumption is that increasing access to schools for all Egyptians is the first step towards developing an educated, informed, well-trained, and productive work force. As a consequence, USAID was heavily involved initially in the construction of new schools and continues to support those efforts. In addition, the Mission also supports programs for primary school building maintenance. But access to school buildings alone is insufficient to achieve the Mission's strategic goals in education. Therefore, USAID has also focused its efforts to support curriculum development and reform at the basic school level. Current Mission emphasis has shifted somewhat away from school construction and more towards quality issues such as curriculum reform and educational planning.

In addition to increasing access to, and quality of, basic education, the Office of Education and Training has also made a major commitment to support participant training and higher education. Ongoing projects are designed to strengthen and upgrade the skills of Egyptian professionals. In turn, this will enhance Egyptian research, instructional, and administrative capabilities. At the same time, these projects should be seen as sound, long-term investments by USAID/Egypt--not as a separate strategic objective with a measurable impact in the short to medium term.

For example, the Mission strongly supports several long-term projects aimed at strengthening the knowledge and skills of University-based Egyptian faculty members and staff. This is achieved through grants to support joint Egypt-US applied research efforts in key areas associated with economic development such as energy, agriculture, and industry. Other projects offer participant training to Egyptian professionals from the public and private sector to study offshore, while still other projects allow for in-country participant training. When these projects are combined with participant english language training, testing, and remediation, the long-term potential to improve the overall quality of the education system is enhanced.

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2. Performance Indicators and Data Sources

Performance Indicators:

- Basic school enrollment rate.
(Data Source: Ministry of Education annual data)
- Average years to completion.
(Data Source: Ministry of Education annual data)
- Repetition rates.
(Data Source: Ministry of Education annual data)
- Student/classroom ratio.
(Data Source: Ministry of Education annual data)
- Non-salary expenditures per pupil.
(Data Source: Ministry of Education Annual data)
- Literacy rates.
(Data Source: Ministry of Education Annual data)

N.B.: data for most of the above sources are also available from UNESCO.

- Variance of expenditures/pupil.
(Data Source: Ministry of Education Annual data)

3. Program Outputs, Indicators, and Activities

The primary support for this strategic objectives stems from three programs under the Office of Education and Training. The first program seeks to increase primary school construction and maintenance. The second program provides instructional materials and equipment to implement primary school curriculum reform. And, the final program seeks to improve education information collection capacity and to support education policy analysis.

Program Outcome No. 6.1. Increased primary school construction and maintenance.

Outcome Indicators:

- **Percent of Single Shift Schools**

(Data Source: Ministry of Education annual data (retrospective data may be available from 1980 as baseline)).
- **Real Increase in government maintenance expenditures (for all schools)**

(Data Source: Ministry of Education and Governorate-level annual data. A standard adjustment for "real" expenditure increase will be developed by economists at the Mission.)
- **Percent of educational zones adhering to maintenance plans**

(Data Source: Ministry of Education, Basic Education Project [BEP] records, Mission monitoring plans including field visits)

Program Activities:

The Basic Education I Project is the primary activity supporting this program and No. 6.2 and No. 6.3 below. Basic Education I -- originally planned to expire about now -- will likely be extended through 1992. Basic Education II, the successor project, is likely to go on stream in the third quarter of FY92. Overall, these projects seek to expand capacity and increase the relevance of basic education throughout Egypt. They consist of four components as follows: (1) school construction, (2) instructional materials development and school equipment, (3) technical assistance in educational planning, curriculum design, cost analysis and teacher education, and (4) Evaluation.

Program Outcome No. 6.2. Adoption and implementation of primary school curriculum reforms.

Outcome Indicators:

- **Number of new curriculum subjects adopted**

(Data Source: Ministry of Education annual data)
- **Fifth-year standardized test scores**

(Data Source: Ministry of Education and Basic Education
I and II annual Project Reports).

N.B.: Until 1993 this data will serve as a baseline only.

Program Activities: See activity description for No. 6.1

Program Outcome No. 6.3. Improved Information collection and
policy based analysis.

Outcome Indicators:

- Number of education data collectors and education data
analysts trained

(Data Source: Basic Education I and II Annual Reports)

Program Activities: See activity description for No. 6.1

H. Strategic Objective 7: Enhanced Public Utilities In Large Urban Areas

The Strategic Objective, the Program Outcomes, and the indicators for each are presented on the following page.

1. Rationale

Egypt's 53 million people live almost entirely on the four percent of arable land that comprise the Nile Valley and Delta, constituting a population density of almost double that of Bangladesh. Density in Cairo, for example, averages 29,000 inhabitants per square kilometer and may range as high as 116,000 persons per square kilometer, one of the highest population concentrations in the world. Population density and growth in other large Egyptian urban areas, such as Alexandria, the Provincial Cities of Beni-Suef, Fayoum and Minia, and the Canal Cities of Port Said, Ismailia and Suez, is also very high.

Historically, public utility infrastructure for clean water, sewerage, electricity, and telecommunications services have constituted a large percentage of USAID assistance in Egypt. Major investments include: \$1.956 billion in water and wastewater; \$1.336 billion in electric power; and \$282 million in telecommunications. Since 1975, urban infrastructure has accounted for \$3.56 billion in obligations or approximately 45 percent of the Mission's entire project portfolio budget.

In spite of these efforts, a full complement of reliable and technically efficient public utility services are not yet available to a large portion of the urban population in Egypt. Existing public utility infrastructure has deteriorated and new construction has not kept pace with rapid population growth in Egypt's large urban areas. Sewer flooding and water shortages are no longer prevalent in Cairo and, similarly, flooding in Alexandria and in several of the Provincial Cities has begun to be alleviated thanks largely to USAID's past and current efforts. Nevertheless, further expansion and improvement of urban public utility infrastructure, especially water and wastewater facilities in large urban areas, is essential to improve the quality of life and productivity of the Egyptian population.

2. Performance Indicators and Data Sources

Performance Indicators:

- **Percentage Urban Water Coverage:** Urban population with household water connections divided by total urban population.

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PROGRAM GOAL
Enhancement of Egypt's
role as a model of stability,
democracy, free markets &
prosperity in the region

PROGRAM SUBGOAL II
Enhanced human resource
productivity and quality
of life

STRATEGIC OBJECTIVE No. 7
Enhanced public utilities in
large urban areas

Pct. of urban water coverage
Pct. of urban sewerage coverage
KW/Capita
No. of telephones per 100 population in urban areas
No. of water line breaks in urban areas
No. of floods from sewer line failures in urban areas
Telephone call completion rate in urban areas
Electricity fault rate of distribution network, per 100 km of lines
Electric generating capacity
Thermal efficiency of electric generation

| PROGRAM OUTCOME No. 7.1 | PROGRAM OUTCOME No. 7.2 | PROGRAM OUTCOME No. 7.3 |
|--|--|---|
| <p>Increased urban public utility services</p> <hr/> <p>No. of urban residential water connections No. of urban residential sewerage connections KWH of urban resid. electricity consumption No. of urban residences served with electricity No. of telephone connections in urban areas</p> | <p>Increased reliability of public utility infrastructure in urban areas</p> <hr/> <p>No. of individuals trained in management, operations, & maintenance of public utility infrastructure Project expenditures on spare parts provided for public utilities No. of public utility infrastructure projects completed according to international design standards</p> | <p>Increased technical efficiency of public utility infrastructure in urban areas</p> <hr/> <p>Efficiency of energy generation Unaccounted for electricity Telephone call completion rate Water wastage</p> |

(Data Source: National Organization for Potable Water and Sanitary Drainage (NOPWASD), Greater Cairo Water Supply (GOGCWS); data collection system needs to be developed and implemented.)

- Percentage Urban Sewerage Coverage: Urban population served by household connections to public sewerage divided by total urban population.

(Data Source: National Organization for Potable Water and Sanitary Drainage (NOPWASD), Cairo General Organization for Sanitary Drainage (C/GOSD), and Alexandria General Organization for Sanitary Drainage (A/GOSD; data collection system needs to be developed and implemented).)

- KW/Capita: Annual urban residential electricity consumption per capita.

(Data Source: Ministry of Electricity and Energy, Electricity Distribution Authority (EDA), Annual Statistical Report.)

- Number of telephones per 100 population in urban areas.

(Data Source: Arab Republic of Egypt National Telecommunications Organization (ARENTO) Statistical Reports.)

- Number of water line breaks in urban areas.

(Data Source: Local water/wastewater utilities, data collection system needs to be developed and implemented.)

- Number of floods from sewer line failures in urban areas.

(Data Source: Local water/wastewater utilities, data collected and implemented.)

- Telephone call completion rate in urban areas.

(Data Source: Arab Republic of Egypt National Telecommunications Organization (ARENTO) Statistical Reports.)

- Electricity Fault Rate of Distribution Network, per 100 km of lines.

(Data Source: Ministry of Electricity and Energy, Electricity Distribution Authority (EDA), Annual Statistical Report.)

- Electric Generating Capacity: Available reserve of electric generating capacity.

(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)

- Thermal Efficiency of Electric Generation.

(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)

3. Program Outputs, Indicators, and Activities

The strategy to support the enhancement of urban public utility services in large urban areas is based on three program initiatives: 1) coverage; 2) reliability; and 3) technical efficiency. Enhanced coverage of the population in large urban areas will be accomplished by improving and expanding water and wastewater systems, building new electric generating facilities, and providing new telephone exchanges. Enhanced reliability will be accomplished through the provision of spare parts for maintenance of water, sewerage, telecommunications, and power systems, and through institutional development and training activities to ensure that the systems are properly managed, operated, and maintained. Technical efficiency of public utilities will be enhanced through the reform of plumbing codes to reduce water wastage, modernization of the electrical power system to reduce energy losses, and modernization of the telephone system to increase the number of telephone calls successfully completed.

Program Outcome 7.1: Increased Urban Public Utility Coverage

Outcome Indicators:

- Number of urban residential water connections.

(Data Source: Local water/wastewater utilities; data collection system needs to be developed and implemented.)

- Number of urban residential sewerage connections.

(Data Source: Local water/wastewater utilities; data collection system needs to be developed and implemented.)

- KWH of urban residential electricity consumption.

(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)

- Number of urban residences served with electricity.

(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)

- Number of telephone connections in urban areas.

(Data Source: Arab Republic of Egypt National Telecommunications Organization (ARENTO) Statistical Reports.)

Program Activities:

- Improvement and expansion water and wastewater systems.
- Construction of new electric generating facilities.
- Provision of new telephone exchanges.

Program Outcome 7.2: Increased Reliability of Urban Public Utility Infrastructure

Outcome Indicators:

- Number of individuals trained in management, operations, and maintenance of public utility infrastructure.

(Data Source: USAID project documentation.)

- Project expenditures on spare parts provided for public utilities.

(Data Source: USAID project documentation.)

- Number of public utility infrastructure projects completed according to international design standards.

(Data Source: USAID project documentation.)

Program Activities:

- Provision of spare parts for maintenance of water, sewerage, telecommunications, and power systems.
- Institutional development and training activities to ensure that water, sewerage, telecommunications, and power systems are properly managed, operated, and maintained.

Program Outcome 7.3: Increased Technical Efficiency of Urban Public Utility Infrastructure

Outcome Indicators:

- Efficiency of Energy Generation (BTU/KWH).
(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics.)
- Unaccounted for Electricity: Ratio of [total electricity produced for sale less total billed] to total electricity produced for sale to residences in urban areas.
(Data Source: Ministry of Electricity and Energy, Egyptian Electricity Authority (EEA), Annual Report of Electric Statistics; and Energy, Electricity Distribution Authority (EDA), Annual Statistical Report.)
- Telephone Call Completion Rate.
(Data Source: Arab Republic of Egypt National Telecommunications Organization (ARENTO) Statistical Reports.)
- Water Wastage: Liter/capita/day.
(Data Source: Local water/wastewater utilities; data collection system needs to be developed and implemented.)

Program Activities:

- Modernization of the electrical power system to reduce energy losses and enhance the productivity of the electrical distribution system.
- Modernization of the telephone system through installation of digital telephone exchanges.
- Increase public awareness of water wastage, and reform initiative for local codes for plumbing fixtures.

III. MONITORING PERFORMANCE OF CROSS-CUTTING ISSUES

Issues of programmatic or policy concern that permeate the USAID/Egypt portfolio of activities and warrant unified planning and performance monitoring are discussed below as cross-cutting issues. Cross-cutting issues, while diffuse, nevertheless have the same status in Mission performance monitoring as strategic objectives, but their monitoring will require collaboration between most or all technical offices.

In addition to the issues discussed here, USAID/Egypt may want to consider including participant training as a fourth cross-cutting concern. Training is conducted throughout the Mission portfolio and is normally reported in the Quarterly Implementation Report. Beyond numbers of participants, it would be useful to monitor the quality of training received and its use by participants upon return to Egypt, particularly the effectiveness of returnee efforts to introduce changes in operational procedures in their organizations and to contribute to on-going A.I.D. projects and programs.

A. Policy

A distinguishing feature of the Mission's current and anticipated portfolio is its increasing emphasis on policy dialogue, particularly in the areas of economic and fiscal policy. While strategies in infrastructure and the social sectors include substantial strategy components, these components feature issues such as cost recovery and pricing which are appropriately seen in the context of overall fiscal management rather than in purely sectoral terms.

A number of the specific reforms being pursued are directed to more than one of the Mission's strategic objectives and to more than one of its Directorates. For example, a number of the reforms included in the sector grants currently under preparation have obvious relevance to both macroeconomic stability and private investment, and most of the reforms in health, infrastructure, etc. have implications for the general objective of promoting movement to market prices.

In our view, the simplest way to address this issue is to make one person or office (presumably EAS) responsible for maintaining a full itemization of the Mission's policy agenda, raising issues as appropriate regarding possible missed opportunities for policy action and/or possible inconsistencies among items on the policy agenda, and producing a report at least twice a year summarizing progress on the Mission's policy agenda. A report of this sort ought not to duplicate the detail included in the policy matrix or other existing policy monitoring devices but should, rather,

summarize all of data available from those sources on a single matrix showing each policy item as a single line with an "x" or lack thereof indicating whether action was taken during (or before) the current reporting period; a third column indicating whether progress on the agenda item in question is ahead of schedule or target, behind schedule or target, or as expected; and a final column indicating the individual responsible for monitoring performance within the Mission. We would also suggest that the same office or individual responsible for overall monitoring of the policy agenda be asked to produce a "policy scorecard" for the period rating performance as a whole in relationship to expectations. Since no absolute calculus can be provided for any such rating, we would propose that a 1-2 page narrative and the matrix suggested above be submitted as backup documentation, and that senior staff of the Mission and possibly credible outside experts be afforded an opportunity to comment on any such rating before it is finalized.

In a related matter, it is noteworthy that a number of the Mission's activities include cost recovery and/or market pricing as either a major objective or a secondary one. We believe that there would be virtue in having a single office or individual responsible for monitoring the consistency of Mission activities with that objective and preparing a brief report (2-3 pages) each year, based on data to be provided by the technical directorates, indicating the status of pricing for each of the services where the Mission has direct involvement. This effort should be kept simple and non-bureaucratic, used primarily as a management tool in the Mission, and only secondarily used as a basis for reporting against Program Outcome 1.2. The services of most obvious relevance are water, sewerage, electricity, telecommunications, basic health services, irrigation and production credit.

B. Women in Development

The issue of assuring benefits equitably by gender is normally considered a cross-cutting issue. This is true by virtue of the belief that development assistance activities have common people-level outcomes. When A.I.D. invests money, technical assistance, and technology in activities designed to promote economic growth, it is assumed that human welfare ultimately increases. A focus on growth for its own sake would be nonsensical.

In order to assure equitable distribution of benefits from development efforts, monitoring of people-level impacts becomes necessary. It cannot be assumed that all population groups will have equal access to these benefits; this is probably most obvious with regard to sex differentiation. A considerable literature documents the fact that worldwide men and women have unequal access to participation in and benefits from donor

assistance activities, unless measures are taken to safeguard equality of access. Egypt is certainly no exception to this rule.

No blanket formula for assuring the full integration of beneficiaries by gender in A.I.D. assistance activities can be established, because of the disparate nature of these activities. Infrastructure and public utility provision, for example, has large-scale population impacts, largely incapable of disaggregation by gender. In other activities, women are often the target population, such as in family planning service provision and maternal health/child survival. Conceivably males may be neglected through over-reliance on investment in such gender-specific efforts.

On the other hand, investment in girls' education, while obviously neglecting boys, nevertheless not only redresses serious inequity in the basic education system, but has enormous pay-off through strong linkages to fertility rate, maternal health and child survival, population growth, and women's income opportunities. Together these outcomes can have a significant effect on national economic growth and human welfare. While girls' education is not an emphasis for USAID/Egypt, data presently collected may reveal a need for renewed attention.

The Mission agriculture portfolio places significant attention on raising productivity through improved efficiencies in water and land use, development and adoption of production and processing technologies, and liberalization of input and product markets. The need to monitor gender participation occurs in access to production and off-farm credit and to exposure to new technologies through the Ministry of Agriculture extension service. Questions regarding women's participation in water user associations and cost recovery schemes are also relevant. Barriers to women's participation in these activities can be significant. The same is true for credit provided to small and micro-entrepreneurs under the SME project; tracking of loans by size and by gender are required of participating Egyptian organizations.

Training, itself worthy of being a cross-cutting issue for USAID/Egypt, can and should be monitored for equity of gender participation across all Mission participant training efforts. Participation by sex should be reported in the Quarterly Implementation Report and be assembled by the WID Committee for monitoring targets established in the biennial WID Action Agenda.

C. Infrastructure

USAID's capital investment in Egypt's infrastructure is usually thought of in terms of its major focus on large public utility investments in electric generation and distribution systems, water and sewerage systems, and telecommunications. There are, however, components of capital investment in infrastructure that cross-cut the Mission's objectives, forming essential "building blocks" for six of the strategic objectives. USAID/Egypt capital investment in infrastructure is unique in the world, not only by the size of the portfolio of investments, but by the breadth of the coverage over the strategic objectives of the Mission.

Under the first subgoal, increased economic growth led by the private sector, all investments in infrastructure by USAID including major projects in electricity generation and water/wastewater and relatively smaller projects in roads and transportation, serve to stimulate private sector investment (Strategic Objective No. 2), and cost recovery initiatives in electricity, water, and sewerage support macroeconomic stability (Strategic Objective No. 1) through effects on the budget deficit. Also under the first subgoal, USAID invests in agricultural (Strategic Objective No. 3) infrastructure by building irrigation systems and agriculture administration buildings.

Under the second subgoal, increased human resource productivity and quality of life, public utility infrastructure investment has a direct impact (Strategic Objective No. 7) through its focus on a near majority of the Egyptian population concentrated in large urban areas. Also under the second subgoal, the provision of clean water and sewerage disposal contributes to the health of the Egyptian population (Strategic Objective No. 5). Finally, USAID invests in education infrastructure by building schools (Strategic Objective No. 6).

Because several of the strategic objectives that are supported by infrastructure initiatives fall outside of the Development Resources (DR) Directorate (i.e. Health, Education, Agriculture, Trade and Investment, Economics), a monitoring procedure similar to the one suggested above for policy dialogue is also recommended to monitor the Mission's infrastructure portfolio agenda. The recommended procedure is to make one person or office (e.g. DR) responsible for maintaining a full itemization of the portfolio, and to act as liaison to other offices and Directorates to maintain close coordination. For example, an initiative for public sector infrastructure to stimulate private sector investment in certain geographical areas should be coordinated with Trade and Investment. In this way the responsible office would identify issues that require coordination on infrastructure investment issues, and identify new opportunities that support the Mission's cross-cutting

infrastructure agenda. A brief annual report on infrastructure initiatives across the Directorates should be prepared and submitted to top Mission management.

IV. NEXT STEPS IN DEVELOPING AND IMPLEMENTING USAID/EGYPT'S PERFORMANCE MONITORING SYSTEM

This chapter suggests next steps for USAID/Egypt in developing and implementing the Performance Monitoring System.

A. Further Development of Performance Monitoring

The USAID should review the present report and make the revisions, to the Program Goals, Strategic Objectives, Program Activities, Program Outcomes, and Program Inputs. The USAID should similarly review and revise the suggested indicators for the Strategic Objectives.

After the USAID decides on its Strategic Objectives and Performance Indicators, the following steps are suggested:

- To the extent possible, establish quantified levels to be achieved annually for each indicator of each Strategic Objective.
- Establish baseline levels for each indicator. Data should be disaggregated by gender where possible.
- Identify data sources. In some cases, individual USAID projects will generate the necessary data; in other cases, national data (e.g. gross domestic product) may suffice. But for some indicators, obtaining data will require additional work. If the data collection effort would be very expensive, consideration should be given to alternative indicators.
- Establish Program Outputs and their Program Indicators, quantify baseline (where appropriate), set targets, and identify data sources.
- Prepare reporting formats and procedures. The collection, analysis and organization of the data needed for internal management and external reporting can be identified and reporting formats, including table shells, can be designed in advance to facilitate presentation of data for ongoing management review and preparation of reports for AID/W.

The USAID has various options available for carrying out the above tasks. CDIE helped with the present report and may be able to provide further assistance. Or the USAID could employ a contractor to carry out the activities with, of course, active participation of the USAID itself. Or the USAID could use its own staff and the services of contractors presently employed on various projects.

B. Assignment of Responsibilities

At present, specific individuals have monitoring and reporting responsibilities for individual projects and non-project activities. It is suggested that the USAID adopt (with revisions it deems appropriate) the Strategic Objectives and their supporting Program Outcomes as its principal vehicle for monitoring and reporting on its overall program.

To monitor an objective may not entail having control over all of the proposed program areas since some of these cross office lines. In such cases, management responsibility nevertheless entails a substantial measure of accountability for program results and hence suggests the need for the individuals involved to exercise whatever influence they can over those who manage the relevant projects and non-project activities.

At the Program Output level, monitoring tasks may be delegated to some extent to contractors, but someone on the staff should be responsible for ensuring that it is done. We recommend that the USAID's present monitoring assignments be reviewed, updated and revise as necessary so that the Strategic Objectives and Program Outputs are covered by assigned individuals. It is important that the individuals involved understand their responsibilities, believe in the objectives they are asked to pursue, and agree that the proposed Performance Indicators represent fair criteria for judging program effectiveness.

The establishment and maintenance of Performance Monitoring System profits greatly from the presence of an individual specializing in information management and evaluation. He or she should work with individual program managers and office directors to clarify data sources, and to compile and present data on key indicators. This same individual should be able to assist the Program Office in preparing USAID-wide compilations and analyses of the data obtained, to assist individual offices in preparing monitoring and evaluation plans for new projects, and to coordinate the development of cross-office monitoring and evaluation plans for obtaining baseline data and tracking future program performance. Technical assistance might be useful in assisting or other wise supporting this individual.

C. Modification of Monitoring and Evaluation Strategies for Ongoing Projects

Once objectives and indicators are agreed upon, a review of the monitoring and evaluation systems of individual projects should be undertaken to ensure that such systems are as useful as possible in collecting, analyzing and presenting information on the designated program-level indicators and outcomes. In a similar vein, future evaluations should, as appropriated, include

in their scopes of work the development of program level information and/or the review of existing program monitoring procedures. Cross-office monitoring and evaluation systems will be needed in some cases.

Annex 1

MONITORING WOMEN IN DEVELOPMENT ACTIVITIES

A. Gender Issues

The concern to assure the full integration of women into A.I.D. assistance activities has heightened in recent years. In mid-1988 the A.I.D. administrator issued action items to promote appropriate attention to the inclusion of women in all development programs and projects. Building on this momentum, Congress passed the FY 1989 Foreign Assistance Appropriations Act with a \$5,000,000 earmark addressed to women in development concerns. This Congressional mandate stipulated that A.I.D. should "seek to ensure that country strategies, projects and programs are designed so that the percentage of women participants will be demonstrably increased." The FY 1990 appropriations language further directed A.I.D. "to seek to ensure that the percentage of women participants will be in approximate proportion to their traditional participation in the targeted activities or their proportion of the population, whichever is greater." Where such an outcome cannot be readily achieved, the legislation directs A.I.D. to undertake an analysis of obstacles to the full inclusion of women and to stipulate how such obstacles can be progressively overcome.

To the end of complying with the Congressional and Agency mandates, USAID/Cairo developed its first Women in Development Action Agenda in September, 1989 (FY 1989-1990). The Action Agenda, citing the differential impacts of assistance activities on men and women and the development benefits to be realized from adapting projects and programs to the differential needs and requirements of both sexes, proposed a multi-year plan of specific interventions in target areas and the establishment of systems and procedures within USAID/Egypt to ensure that gender concerns are appropriately included in Mission policies, programs, and information systems. Sectors selected for particular attention in the WID Action Agenda were agriculture, small-scale enterprise, education, health, and training. In each targeted sector one or two projects were selected for review to assess gender issues.

The Mission WID Committee, consisting of 10 members from throughout the Mission, meets regularly to assess progress. Beyond review of current projects, it has responsibility for review of new program and project design, key evaluation activities, and baseline surveys and feasibility studies. The Committee also participates in project committees to assure appropriate attention to gender issues.

B. WID As Cross-cutting Issue

Program performance monitoring implies measurement of progress toward strategic objectives at appropriate intervals. Monitoring progress toward WID objectives requires that performance indicators be people-oriented to permit gender disaggregation. Only by comparing over time the increasing presence of women among the total number of program and project participants, agents, and beneficiaries can progress toward Agency and Congressional objectives be evaluated. Because many of the proposed Mission strategic objectives (4 of 7) and most of the program outcomes (22 of 27) do not focus on ultimate "end-users" (beneficiaries), strictly speaking they are incapable of gender disaggregation.

The small number of people-level impact indicators at the level of program outcome and strategic objective does not imply, however, that progress toward objectives can ignore the question of participants and beneficiaries. Each program and project activity necessarily involves the participation of numerous people at all levels and will have direct and indirect effects on many others. People-level outcomes and gender concerns cross-cut all strategic objectives, even if their measurement seems removed from the assessment of technical means to address such objectives. Where strategic objectives are not stated in terms of people-level impact, but rather in terms of technical outcomes, monitoring of gender issues becomes the responsibility of each program or project activity manager and ultimately of the WID Committee. Experience has shown, however, that when outcomes are not expressed in people terms, it is normally very difficult to address issues of gender or general social impact of A.I.D. activities.

Tracking and accounting for gender-disaggregated, people-level impacts of development assistance activities will require special linkage studies in many of the technical sectors. Such studies attempt to make the link between technical outputs of projects--ranging from infrastructure installed to economic and regulatory policies reformed--and the ultimate beneficial impacts on human beings. Such studies can proceed in two stages: the plausible linkages between technical outputs and population groups can be documented; and a baseline and post-project assessment of these impacts can be conducted to verify the degree of such impact. To avoid cost and logistical complications, such linkage studies should be drawn from the toolkit of "rapid reconnaissance" evaluations.

C. Program Monitoring

Mission assistance activities can be grouped with relevance to their gender issues. Most difficult to assess are the urban and rural (irrigation) infrastructure projects. Monitoring the

gender-related impacts of these activities would require intra-household analysis, and it is not clear that such analysis would reveal actionable disparities. The same is true for the macro-economic cash transfer program, the major sector policy grants targeting the trade, financial, and business sectors, and most of the Trade and Investment Directorate portfolio.

The Small and Microenterprise Project, however, should continue to be a focus of WID Committee review. This is all the more true because of the recent completion of a study on Women in the Informal Sector, a pioneering study conducted by A.I.D. under the GEMINI project. The importance of income generation for women cannot be minimized. Some 2,000 loans to small enterprises have occurred through the two Egyptian counterpart organizations. Women, however, comprised only 2.5 % to 7 % of loan recipients.

Gender issues in the Agricultural Resources Directorate also concern extension of new technologies to farmers. The Agricultural Production Credit project reports that some 20% of production loan recipients are female, implying a high level of female headship of rural families. On the other hand, it appears that few of the approximately 5,120 Ministry of Agriculture extension agents are female. Cultural barriers preventing male extension agents from contacting female agriculturalists are significant in Egypt, and appropriate contact with the large number of female farmers can only be made by employing female extension agents. Satisfactory achievement of technology transfer under the National Agricultural Research project relies heavily on potentially attaining all rural producers.

The recent emphasis under the Irrigation Management Systems project to organize water user associations focused on canal maintenance and cost-effective water use begs the gender question. The appropriate inclusion of women in training and organizational activities should be monitored and reported on a regular basis by project implementors.

The portfolio of the Human Resources and Development Cooperation Directorate contains a number of programs and projects capable of gender-disaggregated monitoring of participants and beneficiaries. The Basic Education project has an important component of curriculum development and teacher training. While this is a sensitive issue in Egypt, the new curriculum developed for basic education should be carefully reviewed for gender bias and teachers should be trained to avoid promoting unfair gender comparisons. The collection of national data on dropout, completion, repetition, and years to finish rates will apparently disaggregate by gender, once the system is fully in place. Recommendations based on gender disparities in these rates need an institutionalized mechanism for expression. Benchmarks of progress under this project should include decreased gender

disparities in attendance and completion rates for boys and girls.

The University Linkage and the Peace Fellowships Programs should include monitoring of the gender composition of its participants. Reporting on this composition should be made a part of the Quarterly Implementation Report (Q-Sheets).

The Cost Recovery for Health project contains a component of importance for gender monitoring of participation. The loan guarantee program for attracting physicians into private practice in undeveloped areas must assure that women are integrated fully as loan recipients. Training under the High Institute for Nursing project and the Cooperative Health Program should be monitored to assure appropriate numbers of men and women.

The Population/Family Planning project has several components containing gender issues. Training of family planning practitioners in outreach techniques should be equitably provided to men and women. Data collected for the National Population Council should be gender disaggregated. Trainees at the National Center for Training at Ain Shams should be monitored to assure balanced composition by sex.

D. Training

Training activities cross-cut virtually all Mission programs and projects. Numbers of trainees are reported currently in the Mission Quarterly Implementation Report, but no distinction is made by gender. Future monitoring of training activity outcomes, both short-term in-country and short and longer-term participant training in the United States or other foreign countries, can easily be reported by sex and should be expected in future USAID/Egypt activity and program performance monitoring.

E. Conclusion

Programmatic monitoring of compliance with the A.I.D. women in development mandate will require activity-level indicators which even approximate people-level impacts. Where such linkage between technical means and human outcomes cannot be readily made, linkage studies can be conducted. Where the stretch in logic is very great or requires substantial cost, indicators can stop short of ultimate beneficiaries, provided assumptions of further linkage to population groups are made explicit.

ANNEX II. AUTOMATION ISSUES

Reporting requirements will include both a submission of a strategic plan and annual submissions on the indicators to the Near East Bureau. Data submission will include:

Strategic Objectives and related indicators
Program Outcomes and related indicators

For each indicator the mission must submit:

Baseline value and date;
Expected outcome and date;
Definition, unit, and explanations; and
Actual data points for the indicators.

Automation system options include 1) upgrading the Quarterly Implementation Reports; 2) a network-based system with shared responsibilities; or 3) a "stand-alone" tracking system.

- 1) **Upgrading the Quarterly Implementation Reports.** The mission already has a large commitment to producing this report. If the report was in a data base format instead of a WANG document, adding fields for tracking performance indicators and program indicators would be relatively easy.

CDIE and IRM could be asked to develop a report application (in mission approved software) by working in Washington. A programmer could then test and refine the application in Cairo. Training of Mission staff would be a key component of any such TDY. The timing for the TDY should be just after the production of a quarterly report so as to have best access to Mission staff.

- 2) **Network-based system.** This system would allow both access and shared responsibility for the strategic tracking system. This would reduce the work load for the Program Office, spread out the period for submitting information, and invite participation by a wide group of mission staff. This system would have problems in focus and deadlines. However, software limitations currently preclude this option.
- 3) **Stand-alone tracking system.** The system would require annual submission of information from each responsible office or person to the Program Office. The Program Office would then generate a report using whatever software is available.

Advantages:

- **Focus** - Data requirements could be included as part of program week or other such activity.
- **Flexibility** - Generating the system each year does not lock the Mission to any particular software or system structure.

Disadvantages:

- **Perception** - Program data collection becomes a task instead of an ongoing activity.
- **Constraints** - Some indicators require special resources or time to collect and analyze, making it difficult to report in a short time frame.
- **Workload** - This system channels the reporting workload on the Program Office in a short period leaving less time for review and feedback.

In order to start a stand-alone system, the CDIE team is leaving electronic copies of the strategic objectives, performance indicators, program outcome, and program indicators in dBASE, LOTUS, and WordPerfect formats with the Program Office.

USAID EGYPT: PRIVATE SECTOR STRATEGY

I. EXECUTIVE SUMMARY

The Egyptian economy has experienced a fundamental transformation in structure, policy framework and orientation over the past four decades. Prior to the 1950s, the economy was dominated by traditional agricultural and trading activities managed by a small but powerful elite. The socialist regime of President Nasser almost completely displaced the major private sector landowners and traders, replacing them with government enterprises. A strong import substitution policy strategy was introduced, which led to a period of considerable growth in output by state-owned firms. However, this expansion reached a plateau, and the system driven by built-in subsidies and protection against imports has led to reductions in efficiency and competitiveness.

The "open door policy" of President Sadat made initial moves to re-establish a viable private sector, but but was unsuccessful in overcoming the previous years of state planning which did not promote private enterprise.

A growing number of signs indicate that Egypt has entered the early stages of a fundamental transition, from a statist development strategy to a market-oriented approach. These signs include major policy reforms in the areas of pricing, finance and foreign exchange. They also indicate that private enterprise, operating according to market signals, is capable of generating the output and income necessary to improve standards of living in Egypt.

Although there are dislocations that arise from economic transition, donors such as USAID can intervene to reinforce desired change. These interventions can range from providing training, guidance and strategic advice to decision makers, to undertaking initiatives which create economic benefits that in turn indicate the positive "returns" associated with structural adjustment.

The United States, through A.I.D., has achieved success by playing a catalytic role in economic transitions in developing countries.

Egypt now offers a unique opportunity in the nation's recent history for USAID to provide concrete forms of assistance to the emerging private sector.

Until recently, due to major policy constraints and the absence of a viable private sector, USAID's program did not include a systematically designed private sector component, but instead focused on improving infrastructure and access to basic goods and services needed by the poor. In view of the changing environment, a focus on the private sector as part of our development strategy is now warranted.

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USAID's strategic objective vis-a-vis the private sector is to strengthen local institutions which can further the objectives of economic reform with emphasis on the financial and trade sectors. It is the private sector that offers the financial resources and the experience with efficiency and competition that Egypt requires. Significant resources can and must be attracted from the private sector for productive investments that are outward-oriented and will bring Egypt successfully into the global marketplace. USAID/Egypt is uniquely suited to serve as the catalyst to activate and reinforce this process of transformation and this strategic plan describes that role.

II. HISTORICAL BACKGROUND: THE ECONOMIC AND COMMERCIAL SETTING

A. The Post World War II Economy

In the period immediately following World War II, Egypt possessed the attributes of a "traditional" economy. The key characteristics of the system were: dependence on a select number of commodities, a dearth of industrial capacity, and distribution of income and wealth that was strongly skewed in favor of a small group of wealthy families and against the vast majority of urban and rural poor.

Private sector markets dominated the economy, and many operated effectively. Alexandria's stock and commodities exchange was the fifth most active in the world reflecting a highly active private sector that was extensively involved in the world economy. Egyptian and international banks supported this commerce.

B. The Nasser Revolution

Gross class and income disparities contributed to the Nasser revolution and the overthrow of the monarchy. With new leadership the government shifted the nation's economic strategy by instituting an import substitution policy which led to rapid

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expansion of productive industry across all sectors eliminating dependence on foreign sources of supply. These new industrial units were predominately state-owned, although several were joint ventures with private investors. Eventually Egypt adopted strategies that resulted in nationalization of industry and extensive controls over private commerce. This development in turn caused capital flight, the emergence of enterprises that were inefficiently run, and a nationalized banking system that served over-leveraged public sector companies. The import substitution strategy, a planned economy, the absence of internationally experienced and connected private entrepreneurs, and the dismantled financial markets all contributed to an inward orientation. This created a generation of Egyptians who lacked any familiarity with foreign markets, market forces and the requirements of international competitiveness.

C. The Open Door Policy

In an effort to reverse statist trends, President Sadat inaugurated the "open door policy" in the mid-1970s to enlist the private sector in Egypt's development. The essential goals of this initiative were to restore Egypt's credibility within the international commercial community (primarily western industrial nations), and to re-establish Egypt's important historical and regional position as a Middle Eastern leader. However, the policy was left to the Egyptian bureaucracy, which still believed in a controlled economy, with predictable results.

Continued capital flight resulted, due to a basic lack of confidence in the new policies. Successful entrepreneurs were not prepared to return to Egypt, and those in Egypt had no relevant experience with external markets. In sum, there was little improvement over the Nasser years.

D. Current State of the Economy

There were intervening years in the 1970s and early 1980s when the Egyptian economy was buoyant, caused largely by oil exports at favorable prices, remittances, and generous inflows of foreign assistance. However, performance during these years was disguised by underlying weaknesses which could not be sustained over the long term. Such external financing ironically led to the Dutch disease phenomenon whereby non-oil tradable goods were discouraged and an increasing dependence on imports was fostered.

When oil revenues declined in the mid-1980s, the economy slowed down. Economic output became relatively stagnant, with growth averaging around 4 percent, only slightly more than the population growth rate, while inflation has remained over 20 percent annually since 1985. Inflation has been fueled by persistently large fiscal

deficits that have ranged between 8 and 15 percent of gross domestic product (GDP). Most of Egypt's economic growth has been in the non-tradable sector, as overvaluation and excessive government price and regulatory controls have stifled efficient production and exports. Until very recently, government controls had been lifted only in a few areas, particularly agriculture.

Exports stagnated, and totalled only about one quarter of imports by 1989. Apart from tourism, the other major sources of foreign exchange earnings -- worker remittances, Suez Canal revenues and economic assistance -- remained largely at mid-1980s levels without showing any signs of future growth. Contributing to this problem was the Government's policy of maintaining a controlled foreign exchange market.

With this poor external performance, Egypt was unable to service its foreign debt. Accumulated debt arrears by 1989 exceeded \$10 billion, and service obligations in 1990 were in excess of \$6 billion, or about 40 percent of total foreign exchange revenues.

As oil prices collapsed in the early 1980s, the government instituted fiscal expansionary policies to maintain growth. While growth was respectable, averaging around 7 percent through 1985, it came at the price of expanding fiscal deficits and a rapidly worsening balance of payments financed largely by foreign debt. By the mid-1980s, Egypt could no longer borrow its way to growth, and stagflation began to characterize the economy.

The Gulf war added to Egypt's mounting economic difficulties with the return of over half a million Egyptian workers forced from the Gulf, adding to Egypt's already high unemployment and severely reducing foreign exchange earnings from workers' remittances. In addition, the tourism industry was severely hurt, negatively affecting foreign exchange earnings and employment.

To reverse a steep economic decline, the GOE embarked on an economic reform program in 1990 with IMF, World Bank, and USAID/Cairo support to stabilize the economy, bring about structural adjustments, and integrate the economy into a competitive international arena. The GOE signed a Stand-by Agreement with the IMF in May, 1991, and subsequently rescheduled its debt through the Paris Club. Signature for a World Bank Structural Adjustment Loan is expected.

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E. Current State of the Competitive Private Market Mechanism and the Price System

Private market mechanisms and price as a means ^{of} allocating resources have been virtually non-existent since the widespread nationalization of businesses in the late 1950s and early 1960s. Since then, Egypt's economy has been dominated by public sector companies, tightly and rigidly controlled by different sector ministries on which they depend. Over half of total GDP is still produced in the public sector. In the manufacturing sector alone, the public sector accounts for 75 percent of production. In industry, state-owned companies account for 60 percent of production.

Prices for goods and services are still controlled, often set below economic costs, contributing to widespread distortions in resource allocation. Public enterprises are beneficiaries of government subsidies and until the Stand-by, had preferential access to credit at controlled interest rates set below market levels. Given the extensiveness of government controls, the economy did not lend itself to market forces, and hence private firms were unable to compete.

In areas where the government did not control production, government regulations and price controls eliminated competitive markets. For example, rents are controlled, eliminating incentives for the private sector to build rental housing. Although most of the price controls in the agricultural sector have been eliminated, they do remain for cotton, sugar cane and rice, which together comprise 15 percent of agricultural production. Until recently, the government controlled two key economic prices--interest rates and the foreign exchange rate.

is still case Before the recent adoption of a "negative list" for investments, approvals of investment projects were often rejected on the grounds of existing excess capacity, even though there was no competition in the market.

In those sectors where government interference has been significantly reduced, and a genuine competitive market been allowed to develop, growth has been very dynamic. This has been the case for the uncontrolled segments of the agricultural sector and for tourism. In addition, with the introduction of a free-market exchange rate for private exporters, private non-traditional exports have expanded sharply. Between 1985 and 1989, private non-traditional exports grew ten-fold from about \$40 million to \$400 million.

As part of the economic reform program agreed to between the GOE and the IMF and the World Bank, the government is removing controls on prices, except for a small set of "essential goods." Entry into areas dominated by public enterprises should also be liberalized in

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order to establish the effective competition needed to create free-
markets. Even for essential goods, the government will
progressively seek to bring prices to world price levels.

F. "Institutional" Profile of the Private Sector

There are really two private sectors operating in Egypt. One represents the individuals and firms that are largely the counterpart and serves the public sector. This private sector "shadows" the government and serves the public enterprises.

The "other" private sector consists of a small but growing group of entrepreneurs who seek commercial opportunities in areas in which market forces are permitted to operate. Included in this group is Egypt's large informal sector of small shops and industries, service providers, and farmers. With little survey data on hand, the informal sector most likely represents the major component of the private sector as it exists today, which at best can only be estimated at perhaps over one million (approximately 250,000 have been projected to exist in the small industry sector alone based on tentative survey work).

Business associations have been formed, such as the Egyptian Businessmen's Association (EBA) in Cairo and the Alexandria Businessmen's Association (ABA) in Alexandria, largely to represent the interests of the private sector. Altogether there are about ten such organizations today. In the past two or three years, entrepreneurs have begun to recognize the potential benefits of cooperation among firms at the sub-sector level, and consequently have formed precursor organizations to trade or professional associations. For example, there is a contractors' association and informal working groups from the financial, agribusiness, and light manufacturing industries.

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III. CONSTRAINTS TO A PRIVATE SECTOR ROLE IN DEVELOPMENT AND GROWTH

10/15 The most efficient allocation of scarce resources occurs when individuals seek to increase their incomes in an environment characterized by open competition in the supply and exchange of goods and services. This phenomenon can only occur in an economic environment relatively free of distortions and is relatively stable. This cannot be said of Egypt's economy today, though reforms have begun in response to USAID, IMF, and World Bank initiatives. The problems Egypt has faced with low growth, fiscal and current account deficits, for example, are directly related to a poor policy environment which has been further reinforced and given concrete form by a legal and regulatory framework.

A. Policy Constraints

Below is a discussion of key policies that have inhibited the growth of the private sector while maintaining a major share of resources for the public sector.

1. Fiscal Policy

↳ Fiscal expansionary policies were followed to sustain government expenditures for subsidies of essential consumer goods, production inputs, and the operations of state-run enterprises. This in turn led to increased pressure on public sector financial institutions to allocate below-market credit to sustain government subsidies, effectively crowding out the private sector.

2. Exchange Rate

Exchange rate policies were characterized by several anomalies which served to act against private sector interests. Prior to February 1991, the government maintained an administratively-controlled system in which foreign exchange was rationed. Under these circumstances, public sector firms were given preference by applying lower rates to them. There were also other problems with fluctuations in the rates characterized by either appreciation or devaluation, hampering non-traditional exports and creating uncertainties in the financial and goods markets. Since February 1991, the GOE has adopted a policy of relatively free market rates which initially consisted of a two-tiered structure, unified in October 1991. Feedback on the functioning of a free foreign exchange market, though anecdotal, reflects confidence in the new system.

3. Interest Rates and Monetary Policies

Until early 1991, there were two major distortions in Egyptian money markets: 1) nominal ceilings well below inflation on all interest rates and 2) credit rationing to curb excess demand. With ~~virtually~~ negative interest rates prevailing, there

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were no real savings in the economy for investments. Interest rate policies stifled the development of capital markets, and after credit was rationed in favor of the public sector, little was left for private enterprises. Though reform measures have eliminated interest rate ceilings, structural changes are still needed to improve the solvency of the financial system to serve the needs of a changing economy.

4. Trade Policies

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Egypt's trade regime is still biased towards import substitution sustained by inward-looking policies which give preference to state-run industries and exports. Major instruments used to protect domestic industries from competition are tariffs and quantitative restrictions (quotas). Other regulatory controls on the import of goods for the export sector serve as disincentives to private sector expansion into the export market. Egypt has a system of explicit and implicit export taxes and other barriers to exports such as export licenses, quotas, and a time-consuming approval process. An important export disincentive to producers has been the low cotton farm price at which the government makes purchases and in effect, imposing an implicit export tax on Egyptian farmers.

B. Legal and Regulatory Constraints

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The Egyptian legal system reinforces and institutionalizes the policy framework that has inhibited private sector growth. Chief among a set of restrictive legislation is the Investment Law, Law 230. It requires companies registered under it to distribute at least 10 percent of their profits to their employees, and it reserves to the government the right to set production levels and prices. In addition, the application process itself has been an important obstacle. It is excessively time consuming and complicated. As an added disincentive to investment, the approval process is not transparent; the criteria upon which investment approval decisions are made are not clearly specified. To foreign investors the process appeared to be capricious. The recent adoption of a "negative list" should contribute significantly to transparency. Also, it has removed the need for extensive review and ultimate approval by a Ministerial level committee. The present process promises approval much more quickly.

Other laws that inhibit the private sector are:

-- Law 121, the tax law covering income taxation. Marginal tax rates are so high that they discourage productive private investment and provide strong incentives for entrepreneurs to evade taxes.

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-- Law 146, the Fund Receiving Companies Law, perhaps best known, if inaccurately, as the "Islamic deposit receiving fund law." While this law was perhaps needed to deal with the abuses of some of the fund receiving companies, it restricts entry of new, legitimate fund receiving companies into the financial markets of Egypt. The need for new capital in the form of equity is apparent throughout the economy. Without investment banks and other non-bank financial institutions that specialize in equity capital, it is not likely that this capital will be mobilized.

-- Law 159, the Joint-Stock Companies Law which is equivalent to company laws elsewhere. This law provides the legal basis for the formation of private companies, but contains a series of regulations that inhibit business formation, and thereby private sector activity and growth. For example, it requires that at least 51 percent of the shareholders be Egyptian, excluding foreign investors, even those from Arab countries, from investing in Egypt.

-- Law 161, the Capital Markets Law. The law does not encourage the development or use of the capital markets.

-- Law 203, the Public Investment Law, became effective July 20, 1991, and permits privatization. The law also intends to provide a greater separation between ownership and management, and holds management responsible for "bottom line" results much more than before.

C. Institutional Constraints

An economic system that is guided predominantly by private market forces requires a set of supporting free-market institutions. The appropriate institutional structure will differ significantly from the structure appropriate to a government-dominated system. ~~or idea~~ In Egypt the set of free-market economic institutions is far from complete, and the deficiencies are significant impediments to the development of a dynamic, competitive private sector. Institutional constraints are identified below are considered to be: (a) most urgently in need of correction; and (b) appropriate areas of AID attention given overall Mission strategy, objectives and capabilities.

1. Public Sector Institutions: Private competitive markets have great potential to produce quick adjustments to changes in tastes and preferences, technology, resource availabilities and other influences on the "correct" use of resources. To fulfill the potential, however, huge volumes of information (including both data and qualitative information, such as changes in laws and regulations) needs to be collected, organized and disseminated in a timely fashion. While much can be privately collected and disseminated, much also is usually most effectively collected and disseminated by public sector

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institutions. Examples of the latter include monetary system data, tax and government expenditure data, international trade data and statistics on demography and incomes. The information constraint may be the single most important impediment to establishment of a competitive private market system. The GOE penchant for secrecy will have to be replaced by a penchant for openness. Development of information gathering and disseminating institutions in the public sector and elimination of policy, legal and regulatory barriers to private sector institutions, where appropriate, should be a high GOE priority and would merit USG support.

Public sector institutions are also needed to define and enforce property rights and adjudication of contract disputes.

In the transition from government-controlled to a competitive private sector economy, dismantling inappropriate public institutions is more important than establishing appropriate ones. Government institutions that engage in foreign and domestic trade (commodity trading monopolies and/or monopsonies) should be phased out or at least subject to private competition. Similarly, organizations that enforce prohibitions on private market transactions (e.g., the currency and foreign exchange control authorities) have no place in an open, private sector-led economy. A serious review of public laws, regulations, agencies and authorities should be undertaken to identify those antithetical to a competitive, private sector-led economy, and a plan devised for their systematic, orderly removal.

2. Financial Institutions: In a competitive private market economy the institutions of the monetary/financial sector have very important functions to perform. As the principal component of the nation's payments mechanism, the banking system (Central Bank and commercial banks together), determines the value and stability of the nation's currency. (A cursory historical review of the world's market economies reveals untold episodes of misery, deprivation and political turmoil following in the wake of banking and monetary collapse). Financial and monetary variables--prices, wages, rates of return, exchange rates, costs--direct resources into the uses most valued by the society; their importance cannot be over-emphasized. When their fluctuations do not reflect productivities, intensities of consumer preferences, technological developments, relative resource endowments, scarcities and other "real" economic forces, they suppress the level of economic activity.

Monetary banking and credit policy, along with supervisory and regulatory oversight of bank soundness, exert the dominant influence on performance of the monetary system. Assuring that the institutions through which policy and oversight responsibilities are exercised (the Central Bank, primarily) has access to effective

instruments and mechanisms (e.g., primary and secondary securities markets, open market instruments, research and statistical analysis, information systems) is crucial to an efficient private market system. None of these conditions are well satisfied in Egypt.

The banking system, dominated by public sector banks, was designed to support the rest of the economy. Rather than imposing discipline as in a private market system, banks relieved other state enterprises of the need to cover their costs in order to secure continued financing. As a result, bank portfolios accumulated a disproportionate volume of loans that were unlikely to be repaid. Enterprises that might have used resources efficiently were unable to secure financing. The banking system itself became increasingly vulnerable to any attempt to restore financial soundness. "Writing off" a large mass of bad loans would reveal the imbalance of assets and liabilities and would likely trigger "bank runs" and capital flight.

The GOE has started a process of recapitalizing the banking system in preparation for a massive reassessment of portfolios and rationalization of portfolio accounting and loan-loss provisioning. This is a major step toward economically sound banking institutions for a competitive market-directed economy. However, it is only a beginning.

In a market-directed economy, the financial sector cannot consist of banking institutions alone. One of many reasons for this is that banks' liabilities are usually uncertain and generally short-term. Their assets should also be predominantly of the short-term and highly liquid (i.e., relatively low risk) form. If banking institutions are to be specialized, then other institutions, also specialized, must be permitted to develop to meet the requirements for other combinations of risk, return and maturity. Equities market institutions, forward markets institutions, commodity-specific market institutions and others can be expected to form as a natural part of competitive, private market development.

For this development to occur, however, the legal/regulatory environment must be appropriate. Investors of small sums must be able to trust that their savings will not be lost to sophisticated fraud. Enterprises must feel confident that the public sector will not change the "rules of the game" capriciously nor confer privileged competitive status on itself or on "special" private sector competitors.

The creation of the appropriate legal/regulatory environment for financial sector institutional development will require significant policy reform. It can be accelerated through expeditious provision of technical assistance to both public and private sectors. On the capital markets side, the World Bank is preparing a major, multi-year technical assistance project. USAID has provided technical

assistance in this area in the past and may have a comparative advantage in this area.

D. Interrelationship Among Constraints

Economic policy constraints have the broadest repressive impact on economic performance and, therefore, their removal promises the broadest benefits to developing the private sector. Correcting a significant overvaluation of the currency, for example, simultaneously provides profit incentives to all exporters, disincentives to most importers, and, indirectly, boosts demand for labor in labor surplus economies such as Egypt's economy. Deregulation of financial markets encourages both private saving and private investment across the economy.

While economic policy reform is absolutely necessary to a successful transition, it is not sufficient. A policy decision to eliminate restrictions against foreign investment or to sell state enterprises will have little beneficial effect if the legal, regulatory and institutional constraints relevant to private investment are not removed. A policy change relieving cotton farmers of the obligation to sell to the state cotton authority will fall flat if private buyers and exporters are barred from the market. The removal constraints are therefore important, but their removal must be carefully coordinated to achieve maximum improvements.

Economic policy, in a competitive market economy, ordinarily is formed in the general interest. While the special interests of private sector groups will often coincide with the general interest, that is not necessarily the case. Therefore, public economic policy making must remain in the public domain, though it should be informed by private interests and viewpoints. The latter, in turn, should have full and prompt access to information and data on policy actions and their results.

Legal and regulatory constraints often overlap with policy constraints. The implementation of a policy change often consists of a change in laws or regulations. In other cases, laws and/or regulations must be made, changed or deleted in order to permit new services, products or institutions necessary for an efficient, competitive private market system. The need for these may surface in the context of technical assistance in areas requiring expertise in a technical private business speciality.

Institutional constraints consist mainly of inadequate or non-existent institutions. Some are public institutions (particularly in information gathering, analysis and disclosure) but more are private. Financial market institutions, for example, are now inadequate to support a dynamic private market system. Project

assistance to accelerate development of such institutions (particularly of the not-for-profit or public interest type) is an area suitable for donor intervention. Of particular interest in the future will be institutional development directed toward supporting a non-traditional export thrust and financial sector development.

III. Strategy

Egypt is at a crossroads in its economic development now faced with major decisions concerning its growth strategy. As the result of a policy environment that has given preference to a state-controlled economy, Egypt finds itself having to address a number of serious distortions that have led to stagnant growth, and a private sector that is little prepared to move into a competitive arena.

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To achieve its goals of increased productivity and an improved standard of living for its citizens, the GOE has embarked on a major economic reform program designed to stabilize its economy, remove distortions, and give a newfound impetus to the private sector as a central element in its growth strategy. It has signed a Stand-by Agreement with the IMF to initiate major macro-economic reforms, and it stands poised to sign a Structural Adjustment Loan with the World Bank to remove the most serious structural impediments to fostering a competitive environment.

As the policy process unfolds, USAID's strategic objective vis-a-vis the private sector is to strengthen local institutions which can further the objectives of economic reform with focus on the financial and trade sectors. Through the provision of project assistance with technology transfer and training, some of the more basic institutional shortcomings that would prevent optimal policy impact can be addressed.

1. By removing the most serious constraints to growth, Egypt hopes to make the policy climate correct, one in which the playing field is levelled and where both the public and private sectors can fashion appropriate roles in furthering the development of the country. Together with making the policy environment favorable, the GOE has engaged its judicial machinery in a serious effort to dismantle a legal framework that has given concrete expression to and reinforced old policies.

In a broad sense, USAID's policy reform efforts, as embodied in its sector grant program, are setting the conditions (along with the IMF and the World Bank) for greater participation of the private sector in allocating the country's resources. Our sector grant, policy reform effort seeks to bring about structural change in the

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financial and trade sectors which span all areas of economic activity. It also contains a component that addresses fiscal reform at national and local levels and by seeking to rationalize government revenues and spending, reduce substantially the government's role as the principal vehicle for development. Privatization, an activity rather than a sector focus, is also a key element in our sector reform program, and cuts across several sectors. In a real sense, all of the policy reforms included in USAID's sector grant program, if implemented successfully, could be considered part of the process of privatizing the Egyptian economy.

Choice of the financial sector for influencing reform reflects its critical role in mobilizing savings, acting as a source of investment, and providing Central Bank authorities an instrument for managing the nation's money supply. However, because of serious imperfections, the system is still burdened with large amounts of government debt bearing negative interest rates. The resulting effect has been a serious erosion of confidence in the system's ability to fulfill its functions in allocating resources to their most efficient uses.

Trade, another key sector, has been burdened with policies and administrative restrictions on imports and exports largely to protect inefficient, unproductive import-substitution industries. Controls in the sector have had damaging effects in removing competitive incentives to efficiency, retarding export development, promoting capital flight, and discouraging foreign investment and technological progress.

With an emerging new economic order in Egypt, USAID/Cairo not only stands ready to support Egypt's efforts to improve the policy environment, but also to identify a number of institutional shortcomings that require intervention as the policy process takes its course. The results of decades of state intervention have left the private sector weak in even, for example, the most basic of marketing skills that further ~~hinder~~ competition. Other shortcomings, diverse in emphasis, but which collectively serve to undermine private enterprise growth include: the unavailability of credit for small enterprises (where employment potential is high owing to labor intensive nature of enterprises), information collection and dissemination (particularly critical as financial and export markets develop), and a lack of know-how in making the transition from a public enterprise system to one that is privatized. There are other constraints including access to international markets which are a source of technology and critical information on tastes and preferences.

Institutional development with USAID assistance has a major role to play in contributing to the achievement of Egypt's economic reform goals. Project assistance including the provision of technology transfer, training, and commodities complements and reinforces the policy dialogue and reform process. The provision of technical

assistance can be effective in developing over the long term new institutions, as policy restrictions are lifted. At the same time, short-term, highly target know-how can be brought to bear on specialized problems, taking advantage of windows of opportunity. A good example of this was the AID-financed technical assistance to the Central Bank in inaugurating a new Treasury Bill market. The provision of loan funds for small enterprises, working through local institutions is an excellent example of the use of donor assistance to develop local financial institutions to lend to small and micro enterprises otherwise restricted in their access to working capital. The creation of Egyptian institutions to promote domestic and foreign investment and exports is another.

The types of institutional development activities that AID-financed assistance can seek to have an impact on include the following:

- Export promotion: Key policy measures have improved the environment for exports (a devaluation of the currency and exchange rate reform). While further liberalization is needed, AID assistance at the firm level can foster linkages with new export markets, support institutions that advocate export promotion, provide information to exporters, and assist firms improve their production methods and quality of merchandise. *facilitate access to export markets*
- Investment promotion: This is perhaps one area where USAID/Cairo faces its greatest challenge and where the GOE needs to make bold steps. However, until the investment laws are overhauled and uncertainties are removed with respect to government intentions, private capital flows (repatriated capital and new investment resources) will be constrained. Through dialogue and technical assistance, USAID will pursue windows of opportunity in assisting the government to make legislative changes designed to increase investment flows. *At the appropriate time the mission will develop an investment promotion project*
- The collection and dissemination of information: This is a cross-cutting activity that has acquired increasing significance as Egypt seeks to integrate its economy in to the international competitive arena. The kind of information needed varies with the end user and ranges from private entities to government policy-makers. If financial markets are to develop, transactions based on the opportunity costs of capital can only be conducted with the most current advanced technology already customary in most financial markets of the world. Information is also critical to Egyptian exporters if they are to understand the tastes and preferences of potential markets and gear their production accordingly. Information is critically needed from independent sources in furthering the public policy debate on the course of the economy, and giving policy planners an informed basis for policy change.

-- Small and micro enterprise development: USAID plans continued support to this segment of the economy until distortions in the financial sector that deny credit access to these groups are removed. The potential for contributing to the economy is significant and given the labor intensive nature of the enterprises has the potential for helping solve Egypt's employment problem.

-- Privatization of Public Enterprises: With emphasis on supporting USAID's reform efforts in the trade and financial sectors, USAID will continue support of existing activities that provide know-how in going through the steps of a lengthy and complicated process. The government lacks a strategy, and we stand ready to assist it with this effort along with the challenge of making viable the ~~Public Investment Office~~ which is tasked with implementing the GOE's privatization plans. *The entitled*

Finally, in addition to the above, support will continue for the successful private enterprise commodity import program. Our reasons for including this activity as part of our strategy are based on the links forged between U.S. and Egyptian firms which have the potential for expanding U.S. products in Egypt.

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1992 Performance Indicators

| Second Quarter (June 30, 1992) | Third Quarter (September 30, 1992) | Fourth Quarter (December 31, 1992) |
|--------------------------------|--|--|
| <p><u>Financial Sector</u></p> | <ol style="list-style-type: none"> 1. The GOE will submit legislation to remove government controls over interest rates and require public sector lending institutions to lend at market rates of interest, regardless of whether the borrower is a public or private sector firm. 2. The GOE will have completed the necessary legal and procedural steps by which foreign banks will be permitted to operate in all areas of banking open to Egyptian or joint venture banks. (It is expected that such banks will be subject to the laws and regulations affecting Egyptian banks.) | <ol style="list-style-type: none"> 1. The GOE will have completed a study and developed specific recommendations to increase the participation of privately owned banks and other financial institutions in the Egyptian banking and financial system. 2. The GOE will pass and implement legislation which will provide equivalent tax treatment under the global income tax for interest and other forms of capital income. 3. All commercial banks will have reached a minimum ratio of capital to risk-weighted assets of six percent, based on the Basle system. 4. The GOE will submit to the People's Assembly a unified law governing the operations of a private sector securities market; it also will standardize financial accounting, reporting and disclosure requirements for listed companies. 5. The GOE will submit legislation to the People's Assembly to remove present controls on interest rates on corporate bonds. |

| Second Quarter (June 30, 1992) | Third Quarter (September 30, 1992) | Fourth Quarter (December 31, 1992) |
|--|------------------------------------|--|
| <p><u>Fiscal Sector</u></p> <p>1. The GOE will implement a system to generate and publish revenue and expenditure data in disaggregated form on a quarterly basis with a lag of no more than two months.</p> | | <p>6. The GOE will broaden coverage of the sales tax to include travel, tourism, electricity and telecommunication services.</p> |

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| Second Quarter (June 30, 1992) | Third Quarter (September 30, 1992) | Fourth Quarter (December 31, 1992) |
|--|--|------------------------------------|
| <p><u>Trade Sector</u></p> <p>2. The GOE will: (a) eliminate the requirement that private sector exporters submit letters of guarantee under temporary admission procedures; (b) adopt procedures for prompt refunding under the "drawback" system.</p> <p>3. The GOE will initiate a study of the Egyptian customs system, which will result in recommendations to improve the import tax system and administrative procedures.</p> | <p>3. The GOE will permit the inclusion in the temporary admission system of firms that, do not export 100 percent of their output.</p> <p>4. The GOE will initiate a study to review, evaluate and recommend alternative options to the present mandatory public sector "quality control" regulations governing exports.</p> <p>5. In lowering the coverage of import bans from 23% to 11% of domestic agricultural and manufacturing output, the GOE will remove bans in a manner that seeks parity between the public and private sectors as protection is removed.</p> <p>6. The GOE will conduct a review, which includes recommendations for their removal, of the regulations and laws that impede private sector investment in export industries currently dominated by Public Sector Companies.</p> | |

| Second Quarter (June 30, 1992) | Third Quarter (September 30, 1992) | Fourth Quarter (December 31, 1992) |
|---|---|--|
| <p><u>Privatization of the Economy</u></p> <p>4. The GOE will undertake during 1992 a study of the social and economic costs and benefits, and the appropriate means, of opening the cotton spinning industry to private investment and market pricing of inputs and outputs.</p> | <p>7. The GOE will develop a national privatization plan that includes provisions for dealing with the labor force.</p> | <p>7. At least 5 significant public sector enterprises, with a combined asset value of at least LE 100 million, will be privatized.</p> <p>8. The GOE will complete the transition to diversified holding companies.</p> |

1991 Performance Indicators

| FINANCIAL | FISCAL | TRADE | PRIVATIZATION |
|--|--|---|--|
| <p>1. The GOE will complete the process of strengthening the financial condition of the banking system, culminating in the achievement of the target 8 percent ratio for capital to risk-weighted assets of every unit of the system.</p> <p>2. Based on the study's recommendations, the GOE will begin implementation of a plan to increase the participation of privately owned banks and other financial institutions in the Egyptian banking and finance system.</p> <p>3. The GOE will implement regulations governing activities pursuant to the new securities market law.</p> | <p>1. The GOE will have implemented a Global Income Tax (GIT) Law that significantly reduces the number of tax rate brackets and exemptions.</p> <p>2. The GOE will extend the sales tax to cover the wholesale level in an evolving process of converting it to a full value-added tax.</p> <p>3. The GOE will prepare a plan to reduce the percentage of wages and subsidies in total government expenditures.</p> | <p>1. Based on a 1992 study, the GOE will implement changes in Egyptian customs duties and administrative procedures in order to harmonize the Egyptian system with standard classifications.</p> <p>2. Based on the recommendations of the 1992 study, the GOE will embark upon a program of opening to full private sector participation, those industries, sectors and sub-sectors in which trade is now monopolized or dominated by public enterprises or government regulation.</p> <p>3. The GOE will implement the recommendations of the quality control study.</p> | <p>1. The GOE will have unified all business laws (159, 203, 230) and replaced the current system of licensing with simple registration for all types of companies. The GOE also will publish data on company applications and registrations, including the names and dates.</p> <p>2. The GOE will sell its shares or sell outright 10 companies with combined assets of at least LE 500 million.</p> |

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| <p>4. The GOE will remove limits on the interest rates on corporate bonds after legislation has been passed and enabling regulations issued.</p> <p>5. Based on legislation and enabling regulations, foreign banks will be permitted to operate in all areas of banking open to Egyptian or joint venture banks.</p> | <p>4. The GOE will extend the sales tax to the retail level of activity and convert it to a full Value Added Tax (VAT).</p> | | |
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| Financial Sector Reform Program | | |
|---|--|--|
| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1992 Third Quarter (by Sep. 30, 1992)</u> | | |
| 1. The GOE will have completed the necessary legal and procedural steps by which foreign banks will be permitted to operate in all areas of banking open to Egyptian or joint venture banks. (It is expected that such banks will be subject to the laws and regulations affecting Egyptian banks.) | The GOE's economic program emphasizes openness to international economic trade and transformation to a private market economy. Permitting foreign private investment in banking operations of all kinds is an important means of shortening the time required for the transition to occur. | At present, banking is dominated by the public sector. In order to introduce private sector methods and efficiency quickly, foreign expertise in international finance, as well as foreign capital, are essential. |
| 2. The GOE will submit legislation to remove government controls over interest rates and require public sector lending institutions to lend at market rates of interest, regardless of whether the borrower is a public or private sector firm. | The GOE has committed itself to "interest rates determined by market forces." (<u>Economic Reform and Structural Adjustment Program</u> (ERSAP) P.23). Full realization of the goal is to be attained by the end of EFY 1993/94. | This is another step towards eliminating financial market discrimination against the private sector. |

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| Financial Sector Reform Program | | |
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| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1992 Fourth Quarter (by Dec. 31, 1992)</u> | | |
| 3. The GOE will have completed a study and developed specific recommendations to increase the participation of privately owned banks and other financial institutions in the Egyptian banking and financial system. | The GOE is committed to privatizing public sector enterprises and improving the environment for new/existing private sector firms. Almost every industry is available except for a few based on security, environmental or morality grounds. | Privatization of existing Egyptian financial institutions is probably the quickest way to increase competition, and thus the efficiency of the financial sector, thereby enabling it to mobilize savings and facilitate investment. The CBE is open-minded on this subject, which will help the GOE to meet its overall privatization targets. |
| 4. The GOE will pass and implement legislation which will provide equivalent tax treatment for interest and other forms of capital income. | The GOE is committed to introduce a global income tax as part of its FY 1992/93 fiscal program. | The objective is to take advantage of this major income tax reform to correct income tax discrimination against selected financing and investment strategies, while generating additional tax revenues. |
| 5. The GOE will submit legislation to the People's Assembly to remove present controls on interest rates of corporate bonds. | | Corporate bonds reportedly remain subject to a 7% maximum. Removing this irritant would be both substantively and symbolically relevant to the private sector. |

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| Financial Sector Reform Program | | |
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| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1992 Fourth Quarter (Continued)</u> | | |
| 6. All commercial banks will have reached a minimum ratio of capital to risk-weighted assets of six percent, based on the Basle system. | The GOE is committed under the IMF Stand-by to reaching a capital to risk-weighted asset ratio of 8 percent by the end of 1993. (Mem. Ec. Pol., p. 17). An intermediate target of 4% was set for June 1992. | According to the IMF standby agreement, this ratio is to reach 8 percent by the end of 1993. As an intermediate step, banks whose ratio was below 6 percent in January 1991 were to work out with the Central Bank by June 30, 1991, a plan to reach the 8 percent requirement by the end of 1993. The provision here simply provides another step toward the 1993 goal. |
| 7. The GOE will submit to the People's Assembly a unified law governing the operations of a private sector securities market; it also will standardize financial accounting, reporting and disclosure requirements for listed companies. | This indicator is consistent with the GOE-IBRD agreement to revive and reform the securities market. Technical assistance in drafting such legislation is now being provided by the IBRD. | Financial disclosure is necessary for an honest, efficient securities market to function as a means of raising capital. |

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| Financial Sector Reform Program | | |
|---|--|---|
| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1991. Quarter to be Determined</u> | | |
| 1. The GOE will complete the process of strengthening the financial condition of the banking system, culminating in the achievement of the target 8 percent ratio for capital to risk-weighted assets for every unit of the system. | This indicator is a continuation of indicator No.6 for 1992. | The GOE in its MOEP identified this target. (The IMF Stand-by agreement will not be in effect at that time so this indicator provides an incentive to reach this GOE goal.) |
| 2. Based on the study's recommendation, the GOE will begin implementation of a plan to increase the participation of privately owned banks and other financial institutions in the Egyptian banking and finance system. | This indicator is a follow-on to indicator No.3. | Achievement of this indicator will facilitate privatization of the economy and should accelerate economic growth and stability. |
| 3. The GOE will implement regulations governing activities pursuant to the new securities market law. | This indicator is a follow-on to indicator No.7 for 1992. | Implementation of new regulations is necessary for the operation of a private securities market. |
| 4. The GOE will remove limits on corporate bonds' interest rates after legislation has been passed and enabling regulations issued. | This indicator is a follow-on to indicator No.5 for 1992. | |
| 5. Based on legislation and enabling regulations, foreign banks will be permitted to operate in all areas of banking open to Egyptian or joint venture banks. | This indicator is a follow-on to indicator No.1 for 1992. | |

| Fiscal Sector Reform Program | | |
|---|---|--|
| Performance Indicator | Relation to other Programs | Justification |
| <p><u>Year 1992, Second Quarter (by June 30, 1992)</u></p> <p>1. The GOE will implement a system to generate and publish revenue and expenditure data in disaggregated form on a quarterly basis with a lag of no more than two months.</p> | <p>Both the SAI and the IMF Stand-by contain targets for various categories of new revenues, total revenues and the budget deficit. The Memorandum of Economic Policy (P.20) also calls for limiting the growth in the wage bill. All these requirements necessitate the compilation of data on a timely basis.</p> | <p>Publication of data on the public finances is likely to lead to better management of government operations. A market-based economy requires a broader distribution of information in order for it to operate effectively.</p> |

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Fiscal Sector Reform Program

| Performance Indicator | Relation to other Programs | Justification |
|---|--|--|
| <p><u>Year 1992, Fourth Quarter (by December 31, 1992)</u></p> <p>2. The GOE will broaden coverage of the sales tax to include travel, tourism, electricity and telecommunication services.</p> | <p>The GOE has committed itself in the Memorandum on Economic Policy (P.18) to rapid reduction of the fiscal deficit as the cornerstone of its stabilization effort. It also (P.19) said it would extend the sales tax to selected services and increase taxes on travel services.</p> | <p>The proposed condition makes specific the GOE commitment to apply the sales tax to services, and thus will help to insure that the budget deficit target is achieved. Application of the tax to travel and tourism will increase revenues by more than LE 150 million in 1993. Application of the tax to utilities offers the advantage of a sizeable tax base and easy enforcement. At the same time, low-rate stamp duties would be abolished and production costs would not increase because of the input tax crediting feature.</p> |

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Fiscal Sector Reform Program

| Performance Indicator | Relation to other Programs | Justification |
|---|---|--|
| Year 1993 Quarter to be Determined | | |
| 1. The GOE will have implemented a Global Income Tax (GIT) Law that significantly reduces the number of tax rate brackets and exemptions. | The Memorandum of Economic Policy (P.15) commits the GOE to adopting a GIT for the 1992/93 budget year while removing some stamp taxes. The GIT will replace the current schedular income tax system. | The GIT will broaden the tax base while reducing the rates applicable to all taxable income. The increased revenue mobilization could yield more than LE 2 billion. This indicator specifies the major aspects of the GIT. |
| 2. The GOE will extend the sales tax to cover the wholesale level in an evolving process of converting it to a full value added tax. | The GOE in its MOEP (P.22) has said that it would further extend the general sales tax to cover the wholesale level of activity. | The GOE has need of this revenue in order to help meet its deficit reduction goals and is a step toward its ultimate conversion to a full-fledged value-added tax. Additional revenues could amount to more than LE 800 million in 1994. |
| 3. The GOE will prepare a plan to reduce the percentage of wages and subsidies in total government expenditures. | The GOE in its ERSAP has committed itself to targets for these variables relative to GDP. | The management of expenditures is essential to reducing the budget deficit without increasing taxes to an onerous level. |

| Fiscal Sector Reform Program | | |
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| Performance Indicator | Relation to other Programs | Justification |
| <p><u>Year 1993, Quarter to Determined</u> <u>(Continued)</u></p> <p>4. The GOE will extend the sales tax to the retail level of activity, and convert it to a full Value Added Tax (VAT).</p> | <p>This indicator enables the GOE to reach the final phase of the three-phased sales tax, two of which - the manufacturer and import phase, and the wholesale phase - are specified in the Memorandum of Economic Policy.</p> | <p>Complete conversion to a full value-added tax is estimated to generate additional revenues close to LE 1 billion at 1992 income levels.</p> |

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| TRADE SECTOR POLICY AGENDA | | |
|---|---|--|
| Performance Indicator | Relation to SAL & Standby | Justification |
| <p><u>Year 1992, Second Quarter (by June 30, 1992)</u></p> <ol style="list-style-type: none"> 1. The GOE will: (a) eliminate the requirement that private sector exporters submit letters of guarantee under temporary admission procedures; (b) adopt procedures for prompt refunding under the "drawback" system. 2. The GOE will initiate a study of the Egyptian customs system, which will result in recommendations to improve the import tax system and administrative procedures. | <p>The SAL provides for the development and implementation of a plan to improve the drawback and temporary admission regimes. In addition, the ERSAP commits the GOE to greater use of promissory notes in the temporary admission system.</p> <p>The Stand-by and SAL call for various changes in the regulation of international trade, but they do not specify the overall framework of trade regulations.</p> | <p>Removal of these impediments will promote exports by lowering the cost of imported inputs used in exports by at least 5%. Surveys of exporters have repeatedly identified problems with the drawback/temporary admission systems as a significant constraint to export growth.</p> <p>With the growing standardization of EC trade regimes, Egypt will have a difficult time maintaining its market share if it does not modernize and standardize its regulations.</p> |

| TRADE SECTOR POLICY AGENDA | | |
|---|--|--|
| Performance Indicator | Relation to SAL & Standby | Justification |
| Year 1992, Third Quarter (by Sep. 30, 1992) | | |
| 3. In lowering the coverage of import bans from 23% to 11% of domestic agricultural and manufacturing output, the GOE will remove bans in a manner that seeks parity between the public and private sectors as protection is removed. | The SAL calls for reducing the products protected by import bans from 23 percent of output to 11 percent. The GOE has committed itself to abolish all discrimination between public and private sector activities. | The proposed action is consistent with the GOE's commitment to open the economy and that it will use bans only on the basis of non-pecuniary national concerns. The previous reduction in bans opened the private sector to competition from imports, but not the public sector. |
| 4. The GOE will conduct a review, which includes recommendations for their removal of the regulations and laws which impede private sector investment in export industries currently dominated by Public Sector Companies. | The GOE is committed to liberalizing the export trade and allowing the private sector to compete on an equal basis with the public sector. | There are relatively few items that remain under quotas and bans: wool, cotton waste, hides and skins, etc. Cotton and cotton yarn as well as other products are effectively government monopolies. This indicator will be a comprehensive guide for liberalization of exports. |
| 5. The GOE will initiate a study to review, evaluate and recommend alternative options to the present mandatory public sector "quality control" regulations governing exports. | | |
| 6. The GOE will permit the inclusion in the temporary admission system of firms that do not export 100 percent of their output. | | |

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| TRADE SECTOR POLICY AGENDA | | |
|---|--|--|
| Performance Indicator | Relation to SAL 6 Standby | Justification |
| <u>Year 1993, Quarter to be Determined</u> | | |
| 1. Based on a 1992 study, the GOE will implement changes in Egyptian customs duties and administrative procedures in order to harmonize the Egyptian system with standard classifications. | This is a follow-up to Indicator No.2 in 1992. | Implementation of procedures is necessary to gain the benefits from the study. |
| 2. Based on the recommendations of the 1992 study, the GOE will embark upon a program of opening to full private sector participation, those industries, sectors and sub-sectors in which trade is now monopolized or dominated by public enterprises or government regulation. | This is a follow-up to indicator No.4 in 1992. | This liberalization of exports is necessary to get the private sector fully involved in exports and to make the PSCs more dynamic through competition. |
| 3. The GOE will implement the recommendations of the quality control study. | This is a follow-up to indicator No.5 in 1992. | |

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| Privatization of the Economy | | |
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| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1992, Second Quarter (by June 30, 1992)</u> | | |
| 1. The GOE will undertake, during 1992, a study of the social and economic costs and benefits, and the appropriate means of opening the cotton spinning industry to private investment and market pricing of inputs and outputs. | The GOE has agreed under the SAL to eliminate investment licensing except for a negative list of products to be removed by December 1991. | There is now very little private sector spinning capacity. Allowing private sector firms to enter the industry would enlarge the market for private buyers of cotton and provide competition to the public sector spinning mills. |
| <u>Year 1992, Third Quarter (by Sept. 30, 1992)</u> | | |
| 2. The GOE will develop a detailed privatization plan that includes provisions for dealing with the labor force. | The SAL calls for "satisfactory progress" on implementation of the GOE FY91-92 privatization program. A time-phased plan for the post FY91-92 period with detailed implementation procedures may accelerate the program. The SAL calls for the Social Fund to have various components to serve people displaced by privatization and restructuring (P.16 of ERSAP), but a specific plan is not required. | The plan is necessary to facilitate the privatization process on a sustainable, systematic basis. It will demonstrate the GOE's commitment to privatize, improve transparency, take care of displaced people and thus accelerate the process so that progress is "satisfactory." |
| <u>Year 1992, Fourth Quarter (by Dec. 31, 1992)</u> | | |
| 3. At least 5 significant public sector enterprises will be privatized, with a combined value of at least LE30 million. | | |

| Privatization of the Economy | | |
|---|--|---|
| Performance Indicator | Relation to Other Programs | Justification |
| <u>Year 1992, Fourth Quarter (Continued)</u> | | |
| 4. The GOE will complete the transition to diversified holding companies. | The SAL implies that the old HCs will disappear as the new HCs are created. The ERSAP on P.6 states that the old HCs (the present Public Sector Organizations) will be converted into new HCs. The PSCs will then be reorganized into these new diversified HCs. | This requirement is necessary to insure the transition to the new system. |

| Privatization of the Economy | | |
|---|---|---|
| Performance Indicator | Relation to Other Programs | Justification |
| Year 1993, Quarter to be Determined | | |
| 1. The GOE will have unified all business laws (159,203,230) and replaced the current system of licensing with simple registration for all types of companies. The GOE also will publish data on company applications and registrations, including the names and dates. | The SAL (Para.B.2) sees unification as a future policy action beyond the Second Tranche. Registration, rather than licensing, is called for in the SAL. It apparently does not yet apply to Law 230 companies in terms of investment licenses although the executive regulations provide freedom of product mix and production level. The SAL (Para E) eliminated licensing except for a negative list, but there is no basis for verifying compliance. | The unification anticipates a possible World Bank condition that would remove distinctions between public and private sector firms. The licensing process under Law 230 often requires many months because of high level approval that is necessary. The provision of data on registration will be a means of verifying that the registration system is operating properly. |
| 2. The GOE will sell its shares or sell outright 10 companies with combined assets of at least LE 500 million. | The ERSAP (Para 5.03 (e)) calls for the GOE to offer for sale 5 Law 97 companies after enactment of the new Public Investment Law. The (SAL has a similar requirement (Para B.1)) that Law 97 assets of over LE 300 million be offered to the private sector. The ERSAP also called for the sale of LE 300 million in shares of law 159 or law 230 companies. The proposed indicator adds a minimum number of companies to the minimum value of assets and sales. | The amount of progress called for will help assure that the GOE meets its own and the SAL targets. This amount of privatization will demonstrate the GOE's commitment to private ownership and that the legal structure exists to permit privatization on a more "normal" basis. |

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